

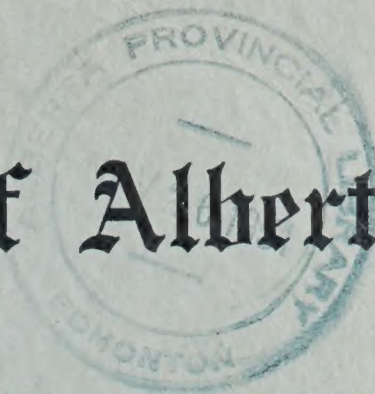
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# The Province of Alberta



## PETROLEUM AND NATURAL GAS CONSERVATION BOARD

IN THE MATTER OF THE GAS RESOURCES PRESERVATION ACT

AND IN THE MATTER of a Joint Hearing to determine various questions  
relating to the proposed Export of Natural Gas from the Province of Alberta.

I. N. McKinnon Esq., Chairman

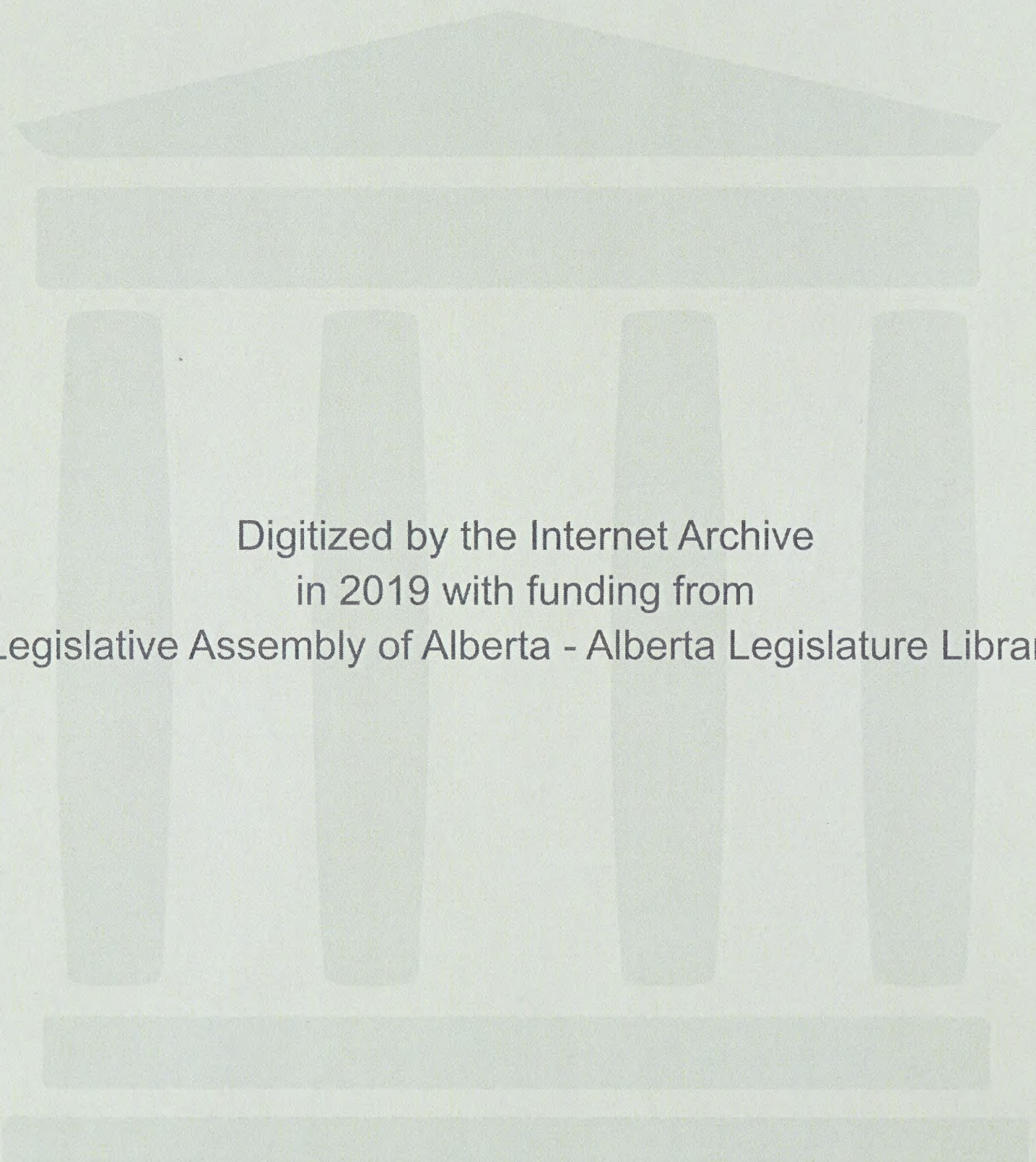
D. P. Goodall Esq.

Dr. G. W. Govier

***Session:*** November 22nd, 1951.

**Volume** \_\_\_\_\_ 25. \_\_\_\_\_





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November 22, 1951.

A. FAISON DIXON, recalled, already

sworn, cross-examination by Mr. Mahaffy continued:

MR. MAHAFFY: Mr. Dixon, in your exhibit number 65, which is the exhibit dealing with the gathering system, you mention on page 1 that you plan an extension when requirements have to be met, and then on page 2 in the last paragraph you say that the Northwest Natural Gas Company and its Alberta affiliates plan and expect to extend the gathering and grid system as originally projected in their application to this Board as soon as circumstances warrant. Now, do I understand from that that you, when I say "you" I mean your companies, will be the ones to determine when circumstances warrant?

A No, I should think that would be determined by the Conservation Board.

Q By this Board?

A Yes.

Q And have you in contemplation what those circumstances might be?

A They are one of two things, that we would need to get an additional gas supply for our line, or that they would need additional gas to bring to the consumers in Alberta.

Q And you stand ready, at least the system does, to comply with the Board orders in that respect, is that right?

A Of course.

Q And if your market in the Pacific Northwest is not developed



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November 22, 1951.

A. FAISON DIXON, recalled, already

swore, cross-examination by Mr. Munnally continued:

Mr. Munnally: Mr. Dixon, in your exhibit number 65,

which is the exhibit dealing with the gasifying system, you

written on page 1 that you plan an expansion when require-

ments have to be met, and then on page 2 in the last para-

graph you say that the Northwest Natural Gas Company and

the Alberta Refining Company and export to extend the system

ing and grid system as originally projected in their appli-

cation to this Board as soon as circumstances warrant.

Now, do I understand from that that you, when I say "you"

I mean your company, will be the ones to determine when

circumstances warrant?

Mr. Dixon: I should think that would be determined by the Govern-

ment Board.

Q. By this Board?

A. Yes.

Q. And have you in contemplation when these circumstances might

be?

A. They are one of two things, that we would need to get an

additional gas supply for our line, or that they would need

additional gas to bring to the consumers in Alberta.

Q. And you stand ready, at least the system does, to comply with

the Board orders in that respect, is that right?

A. Of course.

Q. And if your market in the Pacific Northwest is not developed



A. Faison Dixon,  
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to the extent that you anticipate, what will happen to the gas in other fields in Southern Alberta?

A It would seek another market if the Board decided there was still a surplus.

Q That gas would just have to find another market, is that right?

A Yes, under those circumstances.

Q And furthermore, would it be fair to say that with respect to those fields that your company would be in a dominant position as a buyer, they would have to come to your terms should they want to get into your system, if they could get in at all?

A I think the price is completely under the control of the Utilities Commission.

Q And do you feel that the prices in Pincher Creek, California Standard and Britalta are also under such control?

A Absolutely.

Q But you would nevertheless be in a position to say whether or not you would take gas from any such other field or not, would you not?

A Well, I think if we wanted more gas, I should think they would have the right to nominate the field we should take it from, but if we could not use any more gas excepting for dividing up the load we already have we could hardly be required to take gas we could not use, if that is what you mean.

Q Now, is it fair to say that at the present time and perhaps for some time in the future there really would not be any incentive on your part to extend the gathering system when



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A. Faison Dixon,  
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your line is already filled?

A Not until we have an additional market, which I think could be very soon.

Q Now, you mentioned those additional markets yesterday, I believe. I wonder if you would tell me what they are and where they are?

A Industrial loads, Coeur d'Alene Cement Plant, extend a line over to Kellogg to the big smelter there in the Coeur d'Alene region, the possibilities of steam plants being built in the northwest to help out on the hydro-electric development there, and various extensions of the line that can be made towards southern Washington. There is quite an extensive area there that is still to be served.

Q Now, you have mentioned to me a number of large industrial possibilities. Are there any communities?

A Yes, the towns in northern Oregon and southern Washington.

Q Of any size?

A Not any great size. They are towns of the twenty or thirty thousand.

Q So would it be fair to say that the extra market that you have in mind when you use that expression is heavy industrial use, boiler use?

A Not boiler use so much as other industrial use.

Q Now, Mr. Dixon, you gave my learned friend Mr. Steer some answers yesterday with respect to the utility companies in the Province of Alberta. What provision, if any, is there in your proposed set-up to supply gas to consumers in Alberta other than the utility companies?

A Any town which we can economically reach we would serve.



your line is already filled?

Not until we have an additional answer, which I think could

be very soon.

Now you mentioned these industrial losses yesterday, I believe I would like you would tell me what they are and

where they are?

Industrial losses - General Electric, Westinghouse, and

the other companies in the area.

These companies are the possibilities of steam plants being

built in the Northwest to help out on the hydro-electric

development there, and without the extension of the line that

will be made between southern Washington. There is a

possibility that these plants will be built.

Now you have mentioned to me a number of large industrial

plants. Are there any communities?

Yes, the towns in northern Oregon and southern Washington.

Of any size?

Not any great size. They are towns of the twenty or thirty

thousand.

So would it be fair to say that the entire region that you

have in mind when you use that expression is heavy industrial

use, boiler use?

Not boiler use so much as other industrial use.

Now, Mr. Nixon, you gave my learned friend Mr. Sten some

answers yesterday with respect to the delivery companies in

the Province of Alberta. What provision, if any, is there

in your proposed act to supply gas to consumers in Alberta

other than the utility companies?

Any town which we can economically serve we would serve.



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We do not want to serve the town directly, but to have the gas for the town for anyone that wishes to build a distributing system.

Q What towns could be served economically?

A Very few along the line. We had enquiries with regard to substantial amounts of gas that might be required for industrial purposes in Southern Alberta for some plants that are thinking of locating there.

Q Well, now, first of all tell me about the communities that you could economically serve from your line?

A I have not a map handy. Most all of them are already served with gas, the communities which we pass near. It is very small.

Q It is very small? All right, now, what provision is there in your set-up for supplying gas to the possible industries that you have mentioned?

A Well, we have a great excess of capacity in the line.

Q In your gathering system?

A In our gathering system. Therefore, we would be able to go out and get more gas and sell to the industries, I think, with great ease.

Q You mean like extending your gathering system to other fields?

A Yes, or increasing the amounts from those fields.

Q And on what basis would you plan to sell to such customers?

A On the basis as determined by the Utility Board, what would be a fair price for transporting the gas or selling the gas. I believe that would be under the control of the Utility Commission.

Q Starting at a field price of 10-3/4 cents?







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A Or whatever they buy the gas themselves for and we transport it. I wouldn't say that 10-3/4 is sacred.

Q Would you be in a position to pipe gas from Britalta for less than 10-3/4 cents?

A We would be in a position to but I do not know that they would sell for less than that.

Q Now, Mr. Dixon, there is one point I must confess I am not quite clear about. In your evidence yesterday, Mr. Steer referred to the Board's interim report indicating a deliverability shortage as far as the Calgary system was concerned, commencing in 1958. Now, in addition to that I think you have heard the evidence this Fall before this Board from Dr. Hetherington and also Mr. Hawthorne on the deliverability problem. That is right, isn't it?

A Yes, there are many presentations on that.

Q What I would like to ask you is how does your scheme, as outlined in the last few days, meet that problem of deliverability for your line and for Calgary system requirements commencing in 1958?

A Well, as I said yesterday, now is a poor time to try to determine the exact method by which one would deliver gas five years from now.

Q Well, am I right in thinking, as I was thinking, that you really have no immediate plan for solving that problem?

A No, you would be wrong in that. I testified yesterday that if we had to do it immediately we would go to Cessford and get additional gas, bring it through the line and then from there bring it through the 16-inch line, deliver the gas to the 16-inch line from Calgary to Bow Island.







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Q And have you worked out a deliverability schedule on any such basis?

A No, but I do not think a schedule right now would have very particular meaning. I was wrong in the number of wells I stated yesterday are in the Cessford field. I believe there are 11 already drilled, and if they want to sell gas there that would be a good place to get it. Possibly or probably some of the other fields nearer than that will be coming in before the time that this gas will be needed. It is highly probable that there will be some developments very near to Calgary.

Q So that your view now is that you think that, shall I say, a chance can be taken and that this problem will work itself out in the next five years?

A I do not think it is taking any chances but I think to work it out the best way it can be worked out can only be determined as developments indicate. It would be very foolish to start some scheme to bring gas from more distant places before you have to.

Q Now, yesterday you mentioned what it might cost to bring gas up to Calgary from Pakowki Lake. Would you care to make a similar quick estimate as to what it would cost to bring gas to Calgary from Cessford?

A If we have this system we contemplate in, and bringing it as far as the 16-inch line, I should think it would be on the order of two or three cents.

Q Two or three cents plus the field price for the gas, is that right?

A Yes, plus whatever charge the Calgary system wish to make







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on the gas in the 16-inch line, and I would have to be assuming the 16-inch line was not already occupied to its capacity, and of course, any system like that depends on the volume of gas you want and the load factor.

Q I realize that. Now, Mr. Dixon, you filed a brief with this Board, and I am sorry, Mr. Chairman, I have not got the exhibit number. Mr. Nolan may be able to tell me. It is Mr. Dixon's statement dated May, 1950, which was submitted to this Board, I believe, in June, 1950, and on page 7 of that brief, Mr. Dixon, the last paragraph, you said this:

"The Grid system will be adequate to supply all of the demands of the communities mentioned above as well as having gas for export. The Alberta consumer will be protected in regard to the price and supply."

Now, do you still contend that view submitted in October, 1950?

A In the long run, yes.

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Q In the long run?

A Yes.

Q How does your scheme as now advanced protect the Alberta consumer in regard to the price?

A We are not invading any of the territory which is now serving a substantial community except, you might say, near Medicine Hat.

Q But you are invading fields which might conceivably be needed for local consumption, are you not?

A We are invading fields that might possibly be needed for local consumption, but, at the same time, we are extending the area from which gas can be gathered, so that in the balance I think, it is advantageous for the supply of gas to the city of Calgary.

Q Yes?

A In Edmonton, of course, we have no effect at all in any respect.

Q Well, at the moment . . .

A At the moment, that is, but if we build the big grid system, either up through the middle of the Province, or going through the Foothills, why, that would then give a supply within easy access to practically all the major communities in Alberta.

Q Well, what I am seeking from you at the moment, Mr. Dixon, is in what way the Alberta consumer will be protected as to price?

A Their protection in price is the encouragement of development, getting vast supplies of gas seeking a market, and that gas, like every other commodity, has a tendency to depress prices if they cannot get the price, and if they







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cannot get the price we are paying for export, they will then have to take a lesser price from the local communities, if the communities so arrange.

Q In other words, Mr. Dixon, you say to let the law of supply and demand take its course?

A Yes, sir, under the supervision here of the Utilities Commission, who can step in and alter the law of supply and demand as they so wish.

Q Now, on the question of price, and reverting back to the position of the producers, do you think it is fair that one set of producers should realize what you might call an export price while others realize perhaps a lower domestic price?

A Why, that is the law of trade.

Q You are willing to leave it on the open market basis, are you?

A Yes, sir.

Q Now, Mr. Dixon, is it also true, as the result of the contracts which you have made, and assuming that they are given effect to, that the export markets that you expect to serve have a fixed price for the gas for a period of 25 years?

A Why, they have contractually, but the price that a pipe line sells gas at is subject to the Federal Power Commission, and I know of no case where there has been a long term of years where the price has not been changed by the Federal Power Commission.

Q Put it this way, then, the price of gas at your intake is fixed for the benefit of the export consumer for 25 years; do you anticipate the Federal Power Commission would interfere





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with the price, the price of gas at your gate at Pincher Creek?

A I do not see how they could. They might in the States, but I do not see how they can here.

Q And to that extent the export markets, you might say, are guaranteed a price structure for 25 years?

A Yes, they are guaranteed, but, if you will note, the price is going up.

Q Oh, quite, on a sliding scale?

A Yes.

Q Now, is there any similar provision in your set-up giving somewhat comparable protection to the Alberta consumers?

A No, our contracts have no direct bearing on the Alberta consumer, except that we are going to take a certain amount of gas from the Province which is surplus.

Q Now, Mr. Dixon, in your contract with the Gulf Company, as I understand paragraph 3 on page 2, and this is Exhibit 61, you have what you might call, or, at least, we call it in this country sometimes "the right of first refusal" on all the Gulf gas, that is right, isn't it?

A Yes, sir.

Q So that it necessarily follows that unless you voluntarily give up the rights which you have under that clause, that no local consumer in the Province of Alberta can acquire any of the gas from the Pincher Creek field?

A Well, excepting as it would be determined by the Conservation Board, or the Utilities Board, They have a perfect control over it.

Q Now, are you suggesting that the Board has power to step in and rewrite this contract for you?

A Yes, I believe that. I would hate to pass on a matter of

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law, though.

Q Has Gulf that same understanding?

A I think so. I believe that is even stated in the contract, I forget which clause.

Q Now, Mr. Dixon, did I understand you correctly yesterday when you said that there would be zoning of prices on your proposed lines?

A You mean zoning of prices for sale?

Q Yes?

A No. There would be no zoning of prices, the same price to everybody.

Q I think you said a uniform price over the entire system?

A That is a uniform contract.

Q Yes?

A On a demand commodity rate, and the price will vary not only between the different customers, but for one customer each month under that system, depending on the load factor, the price being based entirely on load factor.

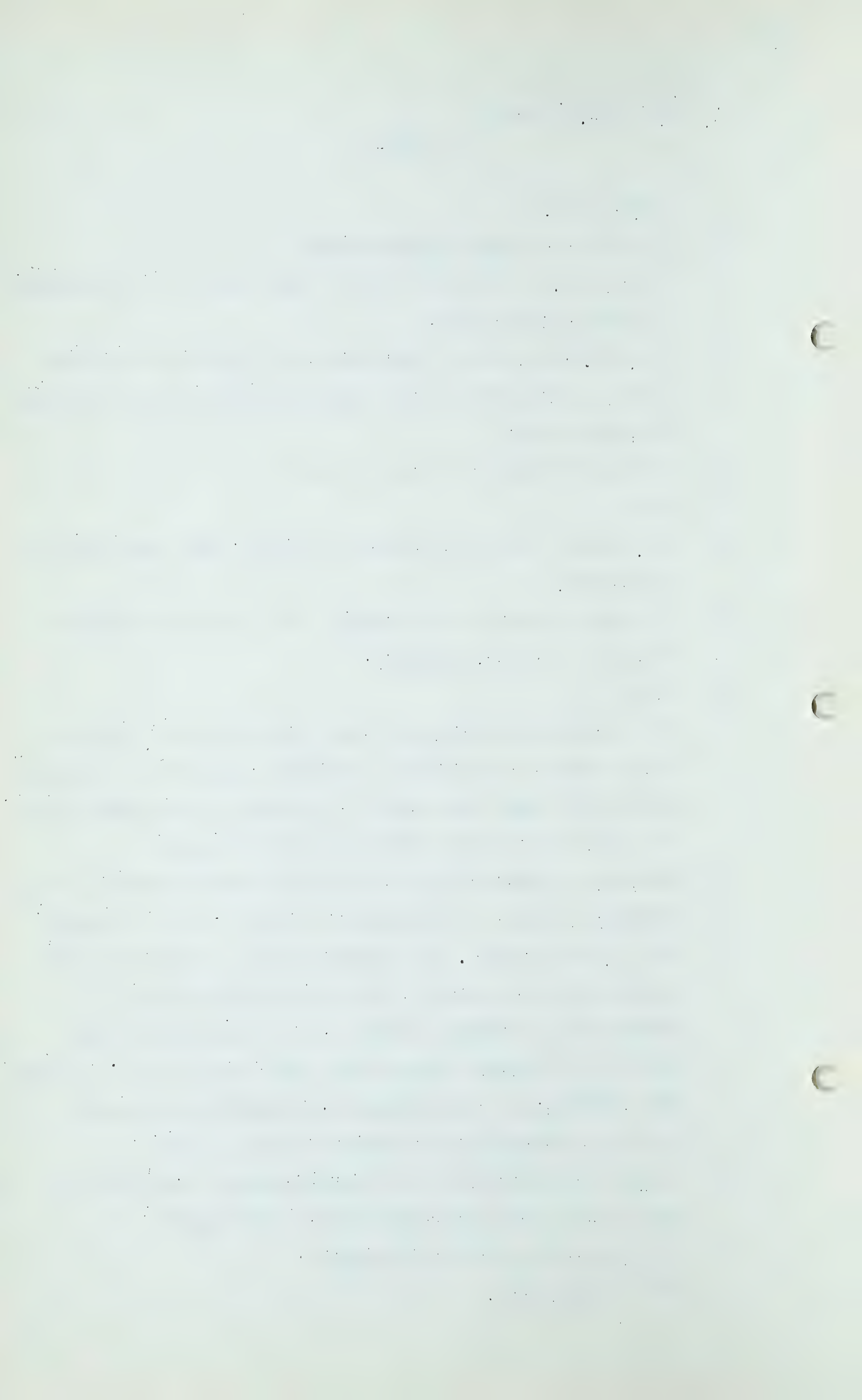
Q Were you speaking then of the United States company or the Canadian company or the Alberta company, or all of them?

A Well, all of them. The Canadian price - I may have mis-spoken myself a little. The price of selling gas in Canada is in Canadian dollars, which might be the same number of Canadian dollars that there would be U.S. dollars, and depending on the exchange, the Canadian purchasers would be getting it at a higher or lower price.

Q Aside from differences in foreign exchange, the price is uniform over all three systems, is that right?

A No, I should say not in Alberta.

Q Not in Alberta?





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A No, not in Alberta, that would be an entirely different set-up.

Q But it would be so on the United States company and on the Canadian company?

A Yes, sir.

Q Mr. Dixon, in your same brief, dated May, 1950, you gave some information with respect to the three companies which you represent. In that document, on page 1, you listed the directors of Alberta Natural Gas Grid Limited?

A Yes.

Q Has there been any change since that time? I mean, I will read them to you if you wish?

A Wait.

Q Yes?

A I think I happen to have a list of the directors here. I do not think we have made any change. If you will read them?

Q Brokaw, Dixon, Moyer and Spencer?

A That is correct.

Q No change?

A I think I gave a list of shareholders before. I think they have been somewhat changed.

Q How many shares of this particular company have been issued to date?

A I think it is - I will have to add them up here.

Q Well, just a rough figure is good enough, Mr. Dixon?

A About 500,000 shares.

Q About 500,000?

A Yes, sir.

Q And can you tell me how many of those shares are held by

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the Canadian company?

A There is 40% of them.

Q 40% are held by Alberta Natural Gas Company?

A No. 60% is held by - I might have misunderstood you.  
60% is held by the Northwest Natural Gas Company.

Q That is the United States company?

A Yes.

Q The Northwest Natural Gas Company holds 60%?

A Well, I forget whether that is held by the Alberta Natural Gas Company, which is 100% owned by the Northwest, or directly by the Northwest. It would be immaterial. They both have the same ownership there.

Q Yes, I see. So that, in any event, 60% of the shares in Alberta Grid are owned either by Northwest Natural or by Alberta Natural Gas Company?

A That is the present status.

Q Now, is there any present agreement to issue further shares of the Grid Company?

A Not any agreement, no.

Q Any understanding?

A Oh, I think, well, that we will, the expectation is we will.

Q And will the Grid Company own the gathering system as described in your exhibit?

A Yes.

Q Exhibit 65?

A Yes, sir.

Q And how will that particular construction be financed?

A It will be financed through the Northwest Natural Gas Company, or the Alberta Natural Gas Company, whichever is





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the top company at the time.

Q How do you mean, will be financed through?

A I mean that all the money will be put up by the parent company.

Q Do you expect that the Alberta company will have a bond issue?

A It will either have a bond issue itself or be under the general bond issue. I would rather have a banker testify as to those details.

Q In any event, the assets of the Alberta Grid Company will be applied in some way or other, will be pledged in some way or other for the general financing of the three companies, is that right?

A That is true.

Q Now, I assume I am right when I say that either Northwest, perhaps it was the Northwest Natural, is the promoter of the Alberta Grid, and it caused it to be incorporated, is that right?

A That is true.

Q Now, with respect to the Canadian company, you mention this brief of May, 1950, that an application was pending to Ottawa for incorporation of that company, and you have since secured incorporation, have you?

A That is correct.

Q Is there any change in the directors as listed on page 2?

A If you will read them I will tell you. I forget what is listed.

Q Connolly, Dick, Dixon, McMillan, Moyer, Simonson and Taylor. Do you want them again, Mr. Dixon?

A Yes, if you will, please.





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Q Connolly, Dick, Dixon, McMillan, Moyer, Simonson and Taylor?

A I think Mr. Eric Harvie is now a director.

Q That is Mr. Eric Harvie of Calgary?

A Yes.

Q Now, what shares have been issued in this company, Mr. Dixon, if any?

A I would rather have the banker testify on that. I forget the exact amount.

Q But, in any event, there is 100% control of this company held by Northwest Natural Gas Company, is that what you told me a moment ago?

A Yes. I think there have been very few, as I remember, very few shares issued. It is all being held by Northwest.

Q Now, you say you would rather have the banker answer some of these questions?

A Yes, sir.

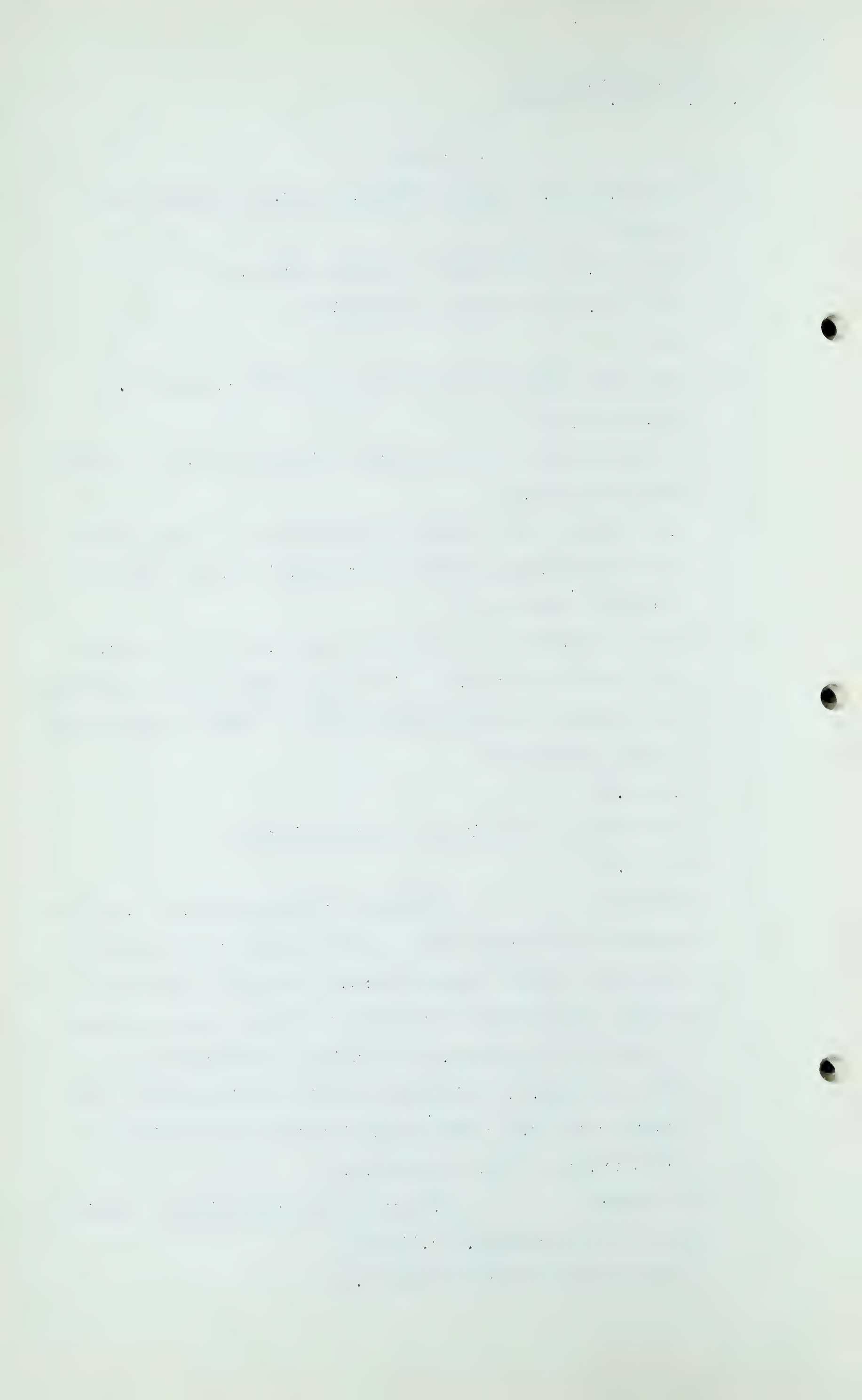
Q Will he be a witness in these proceedings?

A Yes, sir.

MR. NOLAN: Perhaps I might interject, sir, and say that while there was no mention made to the Board of the finance people coming forward, seeing as some have already come forward for other companies, and as we want to round out our picture, we thought we should have a banker available, and with the Board's permission, I did intend to call Mr. Schoales immediately after Mr. Dixon stands down, if that is agreeable.

Q MR. MAHAFFY: Now, how will your Canadian company's operations be financed, Mr. Dixon?

A It will be all financed together.





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Q All through Northwest Natural?

A Either through Northwest Natural, or Northwest Natural through the Canadian, through the Alberta Natural Gas Company. That might be the top company. . .

Q Yes?

A . . . depending on the tax situation.

Q In any event, there will be a bond issue by the Canadian company, and those bonds will either be sold or will be pledged as security for other company bonds?

A Yes, or there will be a bond issue under the American company, and pledged with regard to the Canadian company, one way or the other.

Q Right. And where will your bonds of the Alberta company and the Canadian company be underwritten?

A I would rather have you ask Mr. Schoales, who will be testifying right after me.

Q Right. Now, you did not give us in the statement of May, 1950, Mr. Dixon, and I was wondering if you could do so today, the names of the directors of the United States corporation?

A Oh, by the way, . I may have been mistaken with regard to Mr. Harvie. I think he is one of those that is in the United States corporation.

Q Yes?

A There is W. R. McMillan . . .

Q MR. NOLAN: H. R. McMillan.

A H. R. McMillan, of Vancouver; Mr. Austin Taylor, of Vancouver; Mr. Eric Harvie, of Calgary; Mr. Hand, of New York; Mr. Simonson, of New York; Mr. McKie, Dr. Brokaw, of New York; Mr. Arthur Logan, of New York; Mr. Langley,



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of New York; and I think that is all.

Q MR. MAHAFFY: And yourself?

A And myself.

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Q Now, what shares have been issued by Northwest Natural?

A I would much prefer if you would ask those of the next witness. I think he would have it down more pat.

Q Now, in your brief of 1950 you said that a portion of the shares of this company were owned in Alberta and British Columbia. I do not mean exact figures, but what is the rough proportion?

A Well, that is another question I think could be answered more accurately by the next witness.

Q Definitely a minority?

A It is a minority, yes, sir.

Q Now, Mr. Dixon, we have these three companies and I may call them for brevity the Alberta Company, the Canadian Company and the United States Company. Has the Canadian Gulf or any of its parent or subsidiary companies any interest of any kind in any of these three companies of yours?

A No, sir.

Q Has any officer or nominee of Canadian Gulf any interest in them?

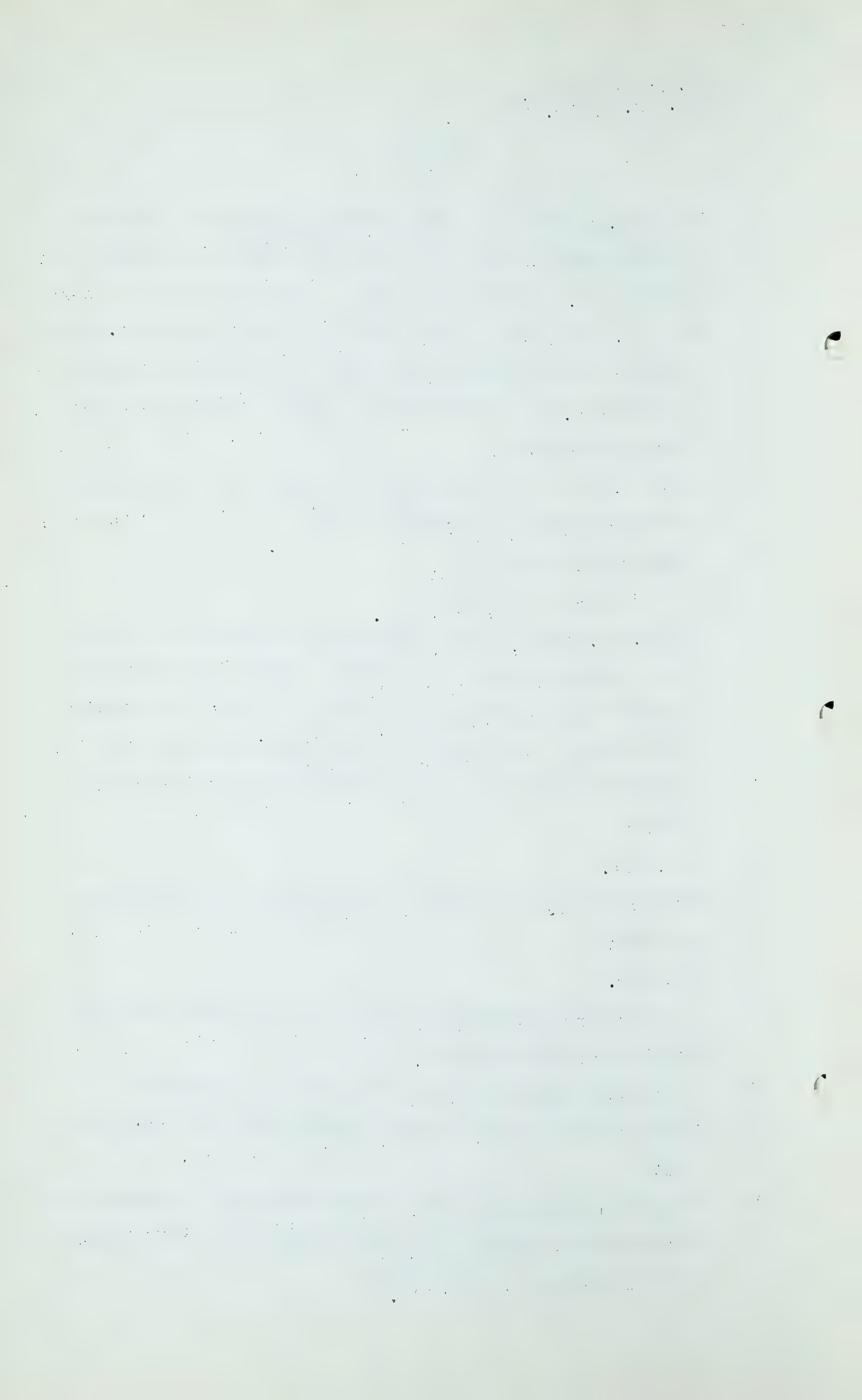
A No, sir.

Q Is there any agreement written or oral by which they will acquire any such interest?

A There have been some conversations but no agreement.

Q And just how far have these conversations gone, what are they?

A The last I heard was that the Gulf could not purchase any stock in the company on account of the law of the United States making it undesirable.





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Q They were desirous of obtaining an interest, were they?

A I think so but they now consider it impossible.

Q Has the idea been given up entirely or are you still carrying on the conversations?

A Apparently given up entirely.

Q And that applies to any subsidiary of Canadian Gulf or any affiliated company of it?

A Yes, sir.

Q Now, I would like to address the same questions to you in connection with Portland Gas & Coke. Have they any interest?

A They have none at all.

Q Any arrangement whereby they will?

A There have been conversations.

Q Conversations?

A But nothing definite.

Q I see. There is something in the wind, is there?

A It is a very gentle breeze.

MR. C.E. SMITH: Sounds like the race track.

Q MR. MAHAFFY: What about officers or nominees of the Portland Gas Company?

A They have no officers or nominees of any kind or description.

Q Now, give me the same report, if you will, on Seattle Power?

A Just the same.

Q Just the same?

A Yes.

Q I am sorry, the Seattle Gas. You know the company I mean, anyway?

A Oh, yes.



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Q Now, just how strong is the breeze in this case?

A Even less.

Q Even less?

A Yes.

Q But still noticeable, is it?

A No, it is not.

Q Now, Mr. Dixon, at page 2096 of the transcript, I think that is yesterday's, at that stage you were answering some questions from my learned friend, Mr. Milvain, and slightly below the middle of the page there are these questions and answers, just two or three of them I would like to read to you, and this is starting just slightly below the middle of the page, Mr. Dixon.

A Yes, sir.

Q "Q. I am wondering this, too, Mr. Dixon, in the event of your operation expanding, have you given any consideration to sponsoring drilling programs or exploration programs to find more gas?

A. Yes, our associates in the company have been very active in the drilling of wells and I think many of them will even continue more so."

Now, I would like you to tell me who those associates are.

A Well, that is by the ownership of stock. It is Western Leaseholds, the Yates Investment Limited, John W. Moyer and his various companies, General Petroleums of Canada, the Athabasca Utilities Limited, Dalhousie Oil Company Limited, Petroleum Income, that is, the company of Mr. Clifton C. Cross, the Hanna Petroleums, Trans-Empire





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Oils, the Chief Mountain Oils, and also one of our associates is drilling a well in Southern Alberta and others are doing some work trying to get a foothold in the foothills.

Q And do you include Canadian Gulf in the category of the companies you have just mentioned?

A No. These are companies that have ownership. If we include those that are connected with us, of course, they would be the Canadian Gulf, the California Standard and the Britalta and the Deep Rock. Those are connected from the point of view of sellers of gas.

Q Now, with the three company set-up which you have, Mr. Dixon, Alberta, Canadian, United States, I am curious to know why the gas contract that you have made and of which the Gulf has one, providing for purchase of gas located in Alberta, why are all these contracts made with the Delaware Corporation rather than the Alberta Company or the Canadian Company?

A I do not know. For one thing, it was easier to be in a position to sign them when we were negotiating the first contract.

Q You mean, it is easier for you to sign for the Northwest?

A To get the consumers and approval of the Board and all that sort of thing, it was far quicker to get it with the Northwest than with any of the other companies, and, as a matter of fact, as of the time I did not give it much thought.

Q That is the only reason you have to offer as to why it was done that way?

A Yes. It may be that the bankers would prefer it that way.





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Q And it is also true that the bulk of the payments under the Gulf Contract are made in Tulsa, Oklahoma?

A Well, that is according to the contract. I doubt if they would ever be made there under the present foreign control laws of Canada.

Q Well, the contract provides in respect of all gas sold in the United States that payment is made in Tulsa?

A It also provides that we will keep the law of Canada.

Q Now, I assume that either you or Gulf anticipated some advantage to one of you in having the payments made in that fashion?

A Well, that is the head office of the Gulf in their western operations.

Q And they have a Canadian office in Calgary, have they not?

A Yes, sir. Part of it will be paid there. The part in Canadian funds will be paid in Canada and the U.S. funds will be paid in Tulsa, according to the contract.

Q But all this in respect of gas purchased in Alberta?

A Yes, sir.

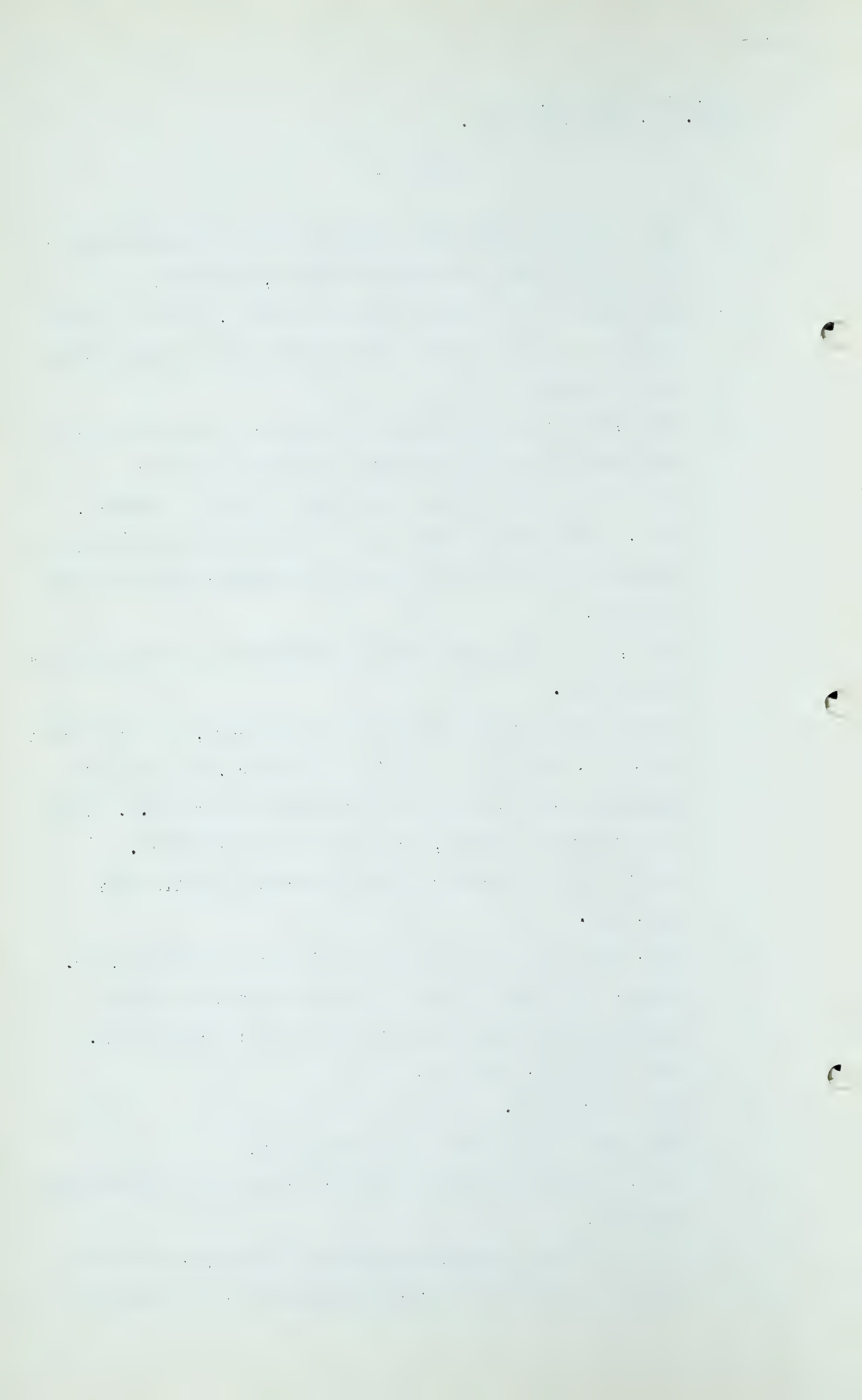
Q Now, there is one further point in that connection, Mr. Dixon. As I read the Gulf contract Northwest Natural agrees to take delivery of the gas at Pincher Creek. That is right, isn't it?

A That is correct.

Q Now, just how is that to be worked out?

A Well, we have a meter and measure the gas as it goes into the line.

Q The lines that you have described in that vicinity are operated either by the Alberta Company or the Canadian



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Company?

A Or its affiliates.

Q Yes, but is the gas to be actually picked up by the Alberta company?

A Yes, sir.

Q In what capacity?

A I mean, it is the Alberta Grid will pick up the gas.

Q Now, will it be purchasing the gas or simply be acting as a carrier for Northwest Natural?

A I do not know. I think that will have to be determined by the lawyers, I could not say.

Q Determined?

A By our attorneys. Just what the legal status of that will be I do not know.

Q In any event, they are wholly controlled subsidiaries of Northwest Natural?

A That is true.

Q Now, you mentioned the other day, Mr. Dixon, propane and butane in the gas at Pincher Creek. Am I wrong in saying that there is nothing in your contract with Gulf which requires that the gas be stripped before it is exported?

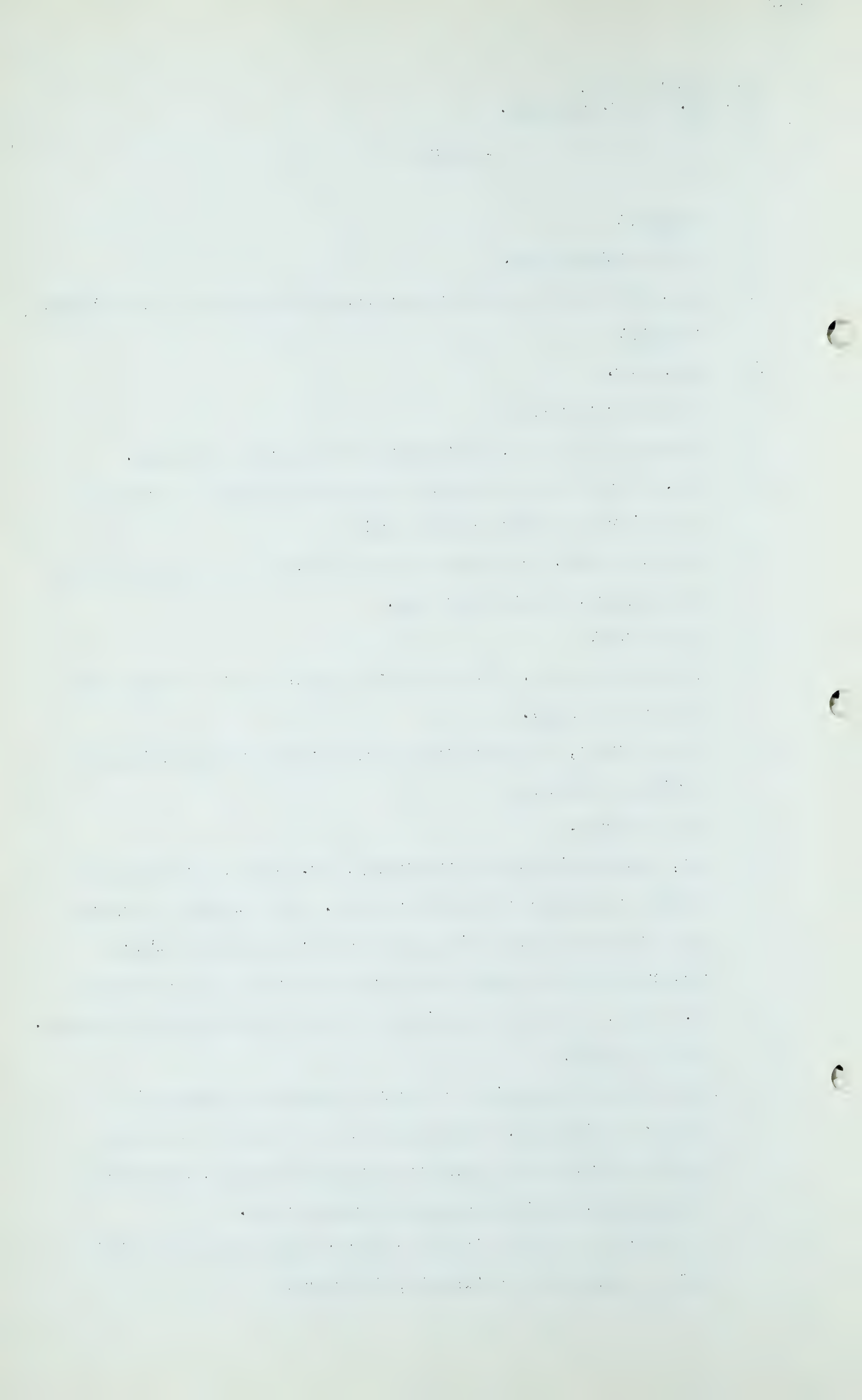
A No. Well, it must be stripped of all deleterious substances.

Q That is right?

A And if they would like to leave propane and butane in I would be delighted. We would have to take it out immediately because they can not put gas through a line with a large amount of butane and propane in it.

Q But there is nothing in the contract providing that that will be taken out in Alberta, is there?





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A Nothing providing it should be, but they certainly will be taken out before we get it because that is a valuable constituent and it has to be taken out before we can put it into the line.

Q And will that be done in Alberta, can we be assured of that?

A It will certainly have to be done in Alberta because it travels through Alberta for quite a distance in the main line and we could not transport it in that main line without extracting those liquids, that is, the major part. There is always a little of the gasoline, butane and propane left in.

Q Now, yesterday, Mr. Dixon, you were discussing, I believe it was with Mr. Steer, the effect of the United States commodity indices on the price of gas to Vancouver. Incidentally, you have no contract to supply Vancouver as yet, have you?

A No, sir.

Q And I think that you agreed that the United States indices would affect the price to Vancouver but you did not think it would be of any great importance, is that right?

A That is, I thought the indices would be very much the same in Vancouver as they would be in the United States.

Q Yes. Now, under Schedule 2 of your Gulf contract, there is provision for increasing the price of gas when it gets up over the 80 billion figure. That is right, isn't it?

A Yes, sir.

Q And if your market in the United States develops, as you have expressed hope that it would, is it not true then that that schedule would jump the price in Vancouver?





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A No, sir.

Q Why not?

A Because the way that escalator clause is supposed to act, and I think it will act that way, is that the decrease in costs of transportation, which are due to two factors, one is the passage of time where the debts are being paid of the company and decreasing the interest and amortization charges, that decreases the cost of transporting the gas. That is purely an element of time. As you increase the volume going through the line, irrespective of time, that decreases the unit cost of transportation. Both of those are taken into account and that benefit accrues to the producers and not to the pipeline or to the consumer. The consumer has a guarantee of a steady price and the producer has a guarantee of an increase in price.

Q Yes. Well, now, on that point, Mr. Dixon, as you say, that saving is in effect passed back to the Alberta producer?

A Yes, sir.

Q Now, is it your understanding that that way of working the thing out is consistent with the Federal Power Commission practice?

A Yes.

Q As you know it?

A At least, of the increased price in respect to time as universally in gas sales contracts, practically speaking.

Q I mean, the theory of passing the benefit of that back to the producer rather than to the consumer?

A The tendency has been in general up until recently to pass it all to the consumer, but at the present time, under the



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new rules and regulations that seem to be coming into effect, that current seems to be reversed now. That is a question of very contentious law in the United States and I hate to pass on anything like that.

Q Don't you think the Federal Power Commission would chuck this idea out the window?

A I do not think so.

Q And have you had any similar, or do you know of any similar case which they have approved?

A There are some cases in the El Paso contract with consumers where the price has gone up on increased volume from the producer. It is not quite the same. I never have seen anything just the same as this.

Q So this is really going to be in the nature of an experiment as far as your Federal Power Commission is concerned, is it?

A That is correct.

Q Now, Mr. Dixon, again coming to the Gulf contract, am I right in thinking this, that the contract is not restricted to gas which Gulf owns or controls in the Pincher Creek field?

A Well, the gas that they are furnishing to the line is restricted to the gas owned and controlled, that is my understanding of it.

Q Now, as I say, I have been struggling with this contract, perhaps in my own deficient way, but it refers to the Pincher Creek field but when it comes to the clause dealing with the purchase and sale of gas it seems to me it did not restrict it in any way to gas located in the Pincher Creek field.





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A Well, the increase in price due to volume is not restricted at all to the Pincher Creek field, as a matter of fact.

Q No. I am sorry, I was not thinking of the price. I was thinking of the actual contract for the purchase and sale of gas. It would seem to me, and I wondered what your view was, that it covers any gas which Canadian Gulf may own anywhere?

A No, it does not. It only covers gas from the Pincher Creek field.

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Q Now, if the contract suggests differently, that is not your intention?

A That is not my intention. Sometimes contracts mean something different from what you thought they did.

Q And if Gulf has gas elsewhere in Alberta, is it your statement that according to the intent, according to your intent, you have made no contract with respect to it?

A That is correct.

Q Now, I would like you to turn to the contract, if you have the contract in front of you, to clause 14, Mr. Dixon?

A Yes, sir.

Q Where it is stated that the "buyer's obligation to purchase" and so on, and the "seller's obligation to sell . . . shall be subject to all valid laws and regulations which may be lawfully applicable to buyer or seller." Now, what do you mean by "valid laws"?

A Why, I am not a lawyer, and I would have to have an attorney try to describe what that means.

Q Yes?

A They seem to always put that in all contracts. That seems to be a standard sort of phrase.

Q You think it is?

A With my limited knowledge.

Q I see. Did you have in mind some invalid laws and regulations?

A No, I did not have anything in my mind. To me it seems that it is all very foolish when you say you are going to obey the law when you have to obey the law anyway, so why put it into a contract?

Q Now, I was just wondering if by any chance when you said

[illegible]

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"all valid laws", whether you had in mind section 9 of our Gas Resources Preservation Act? You know the section I mean.

A That is the section which holds that only excess gas can be exported, isn't that it?

Q It is the one that gives the Board the right - perhaps I had better read it, so that we won't have any misunderstanding.

MR. C. E. SMITH: Here is a copy of it, Mr. Dixon, but don't forget to give it back to me. That is about the tenth copy I have passed around since the hearing opened.

Q MR. MAHAFFY: Section 9, Mr. Dixon.

A Yes.

Q "Notwithstanding the provisions of any permit, where, in the opinion of the Board, an emergency occurs or other circumstances arise by reason of which it becomes necessary, in the interests of the people of the Province, to provide additional gas to meet the needs of consumers within the Province, the Board, with the approval of the Lieutenant Governor-in-Council, to meet the emergency or other circumstances, may make an order requiring the diversion of all or any portion of the gas to which a permittee is entitled under his permit to consumers within the Province for use and consumption within the Province for such period as the Board may order."

Now, I was just wondering, Mr. Dixon, if in drawing your Gulf contract, in using the word "valid" that perhaps you had in mind that this particular section is invalid?





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A No, I had no such idea.

Q Have you been advised that that section is not intra vires of the Legislature of the Province of Alberta?

A I have not.

Q You have perhaps reason to suspect that it will not be valid?

A I am no lawyer, but it seems to me . . .

Q You told me yesterday you understood all the law, so that is why I am questioning you about it.

A It seems to me that even in Alberta, or in Oklahoma, or in any other state any place, or any other locality anywhere in the world, that they would have that right inherent in the government of the locality, whether they had it in the law or not.

Q And you say that you have not received any advice with respect to the validity of this particular section?

A No, sir.

Q Now, Mr. Dixon, assuming, as many people think, that that section is a bit wobbly, are you willing to contract with the Government, or with this Board, that whether or no that section is good or bad that you will be bound by its terms and meanings in the handling of your export?

A Now, that is certainly a legal question. If it is invalid you cannot contract to do something which would be against the law.

Q I must differ with you.

A That is something that the attorneys will have to decide. That is getting beyond my very shallow knowledge of the law.

Q I must differ with you on it there, and I am going to ask





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you the question again. Are you willing to undertake or contract with the Government of the Province, or with this Board, altogether aside from the provisions that may be in this Act that we have been discussing, to the same effect as section 9?

A Well, as I was just saying, that is truly legal. We trust absolutely the integrity of the Government of Alberta and of this Board.

Q I see. You do not want to answer that question, is that it?

A No, I think we are bound anyway, whether we contract or not, and I think - I would have to have legal advice on this, of course.

Q All I am asking you is if you are not bound, because the section is not valid, are you willing to be bound in that fashion?

A I think so.

Q Well, Mr. Dixon . . .

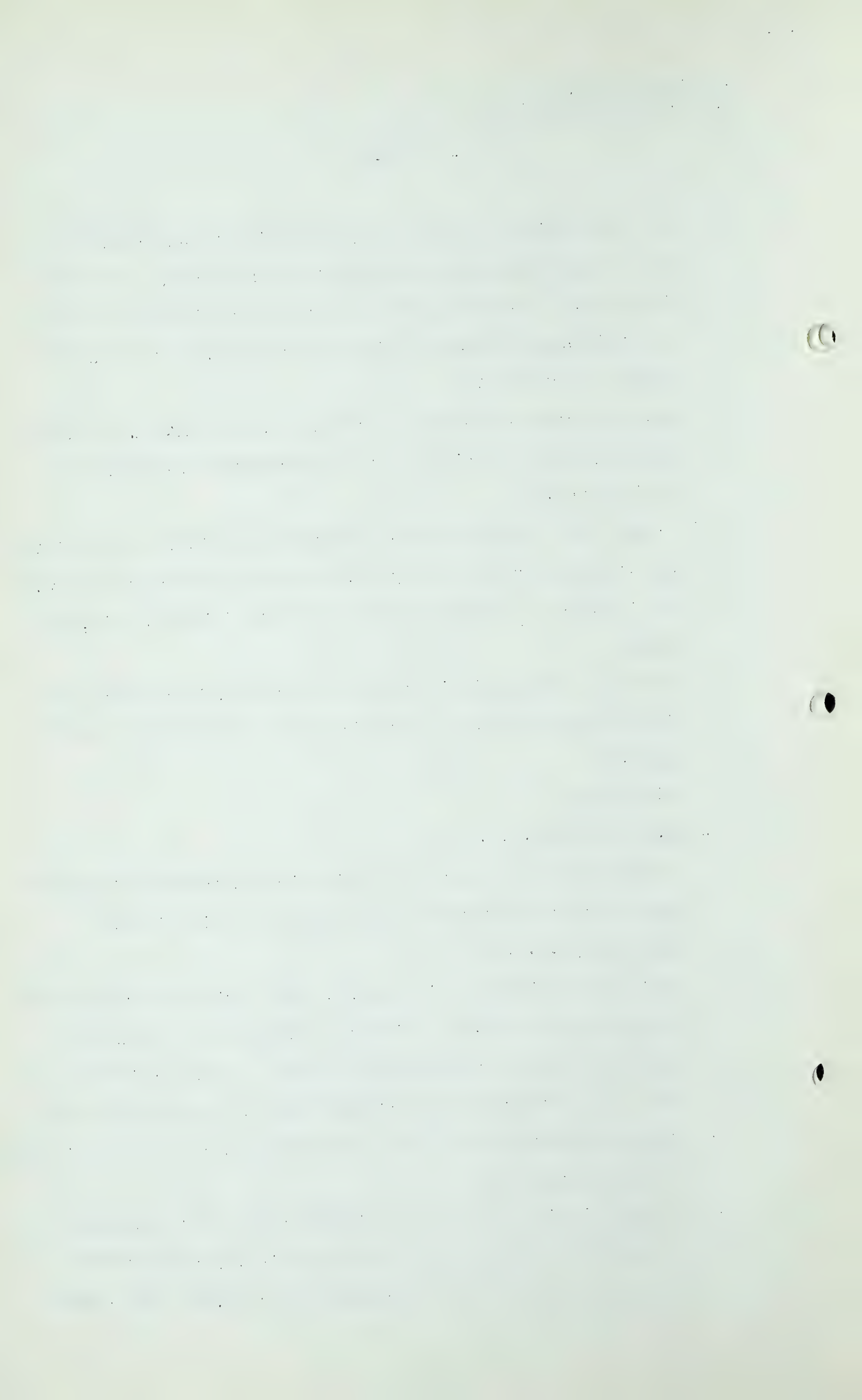
A I think this is a very deep question in law that I think we will be bound by whatever the Board declares is right.

Q Well, you say . . .

A And I think we will so stipulate, and they will not give us a permit unless we do. We will certainly have to do what the Government of Alberta wants before we get a permit.

Q And if the Government of Alberta asks for a contract or an undertaking along the lines I have suggested, are you willing to give it or not?

A We will be willing to give anything that they stipulate. We might not then be able to finance a line. But I think that is a question for the lawyers to discuss, with regard



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to the law.

Q Put it another way then, are you willing to say now that as far as you yourself, or your companies, are concerned, that this section 9 will not be attacked as being ultra vires?

A Yes.

Q Mr. Dixon, coming again to the dual authority problem, that is the Board in Alberta and the Federal Power Commission in the United States, I understood you to say earlier in your testimony that so far as your set-up is concerned, that the City of Vancouver and other Canadian consumers in the vicinity of Vancouver have priority for gas going through the line into the United States, is that right?

A That is true.

Q And that also applies, I take it, to any consumer on the Canadian side?

A That is true.

Q Now, what is going to happen if in the future we are short of gas and the Federal Power Commission takes the view that the houses of Tom, Dick and Harry in Portland should be heated in priority to the supplying of large industrial supplies of gas to the plant in Trail in British Columbia? They might easily take that view, might they not?

A They might do so, but I do not think that will make any difference what their views are.

Q Supposing that they order you to deliver that gas to the Atomic Plant at Hanford?

A Well, if it were the Atomic Plant at Hanford, I think that might be in a different category, as I believe that no one would want to stop that.





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Q And Vancouver would go short, or might go short, if that were the result?

A I do not believe that could possibly happen.

Q Yes?

A But I think if it was the case of an emergency and Hanford needed gas, I think Vancouver would gladly go short for a while.

Q Yes?

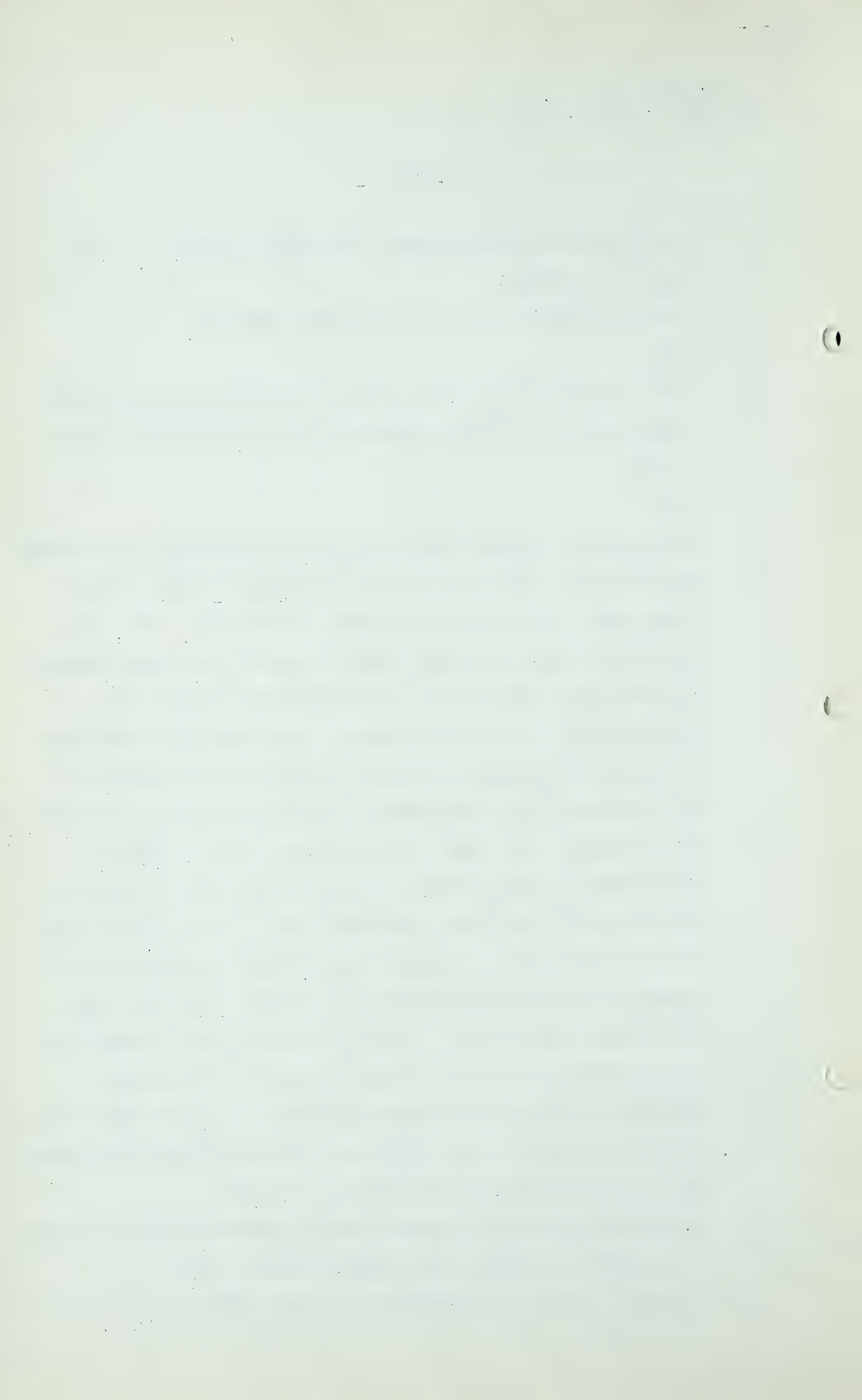
A But there is a remote chance of anything like that happening.

Q Wouldn't the situation be this, Mr. Logan - that probably shows that I have been on my feet long enough. Isn't the situation this, Mr. Dixon, that in spite of any undertakings you may give Vancouver or give this Board, that if the Federal Power Commission climbs on your back and tells you to deliver this gas to Hanford irrespective of the effect on the people up in Vancouver, that you have got to deliver it?

A No, I do not think that is necessarily true. I think a lawyer should answer that, of course, but I do not think that is true and I have been told that that is not true, because they will have the gas under bond. We will sell the gas in Canada to be delivered as near as possible that the thing can be done under bond. All of the people who purchase gas in the States will have to sign a contract in which the priority is given to Canadian consumers. I think that those two things combine. The legal position would be very strong, and I do not know that it could be changed.

Q And you feel that the Federal Power Commission would hesitate to interfere, is that what you are talking about?

A I think if they did interfere the Courts would stop them.





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Q Excuse me just a moment, sir. Now, Mr. Dixon, assuming, and you do not need to go as far as assuming that it is Alberta Inter-Field, the company which I represent, but assuming a gathering system was set up in the Province of Alberta, and was gradually developed, a company which would be completely under Provincial control and jurisdiction, to pick up gas in the Province, and buy and sell gas in accordance with the directions of the Board, either locally or through an export line at the Provincial boundary, assuming some such industry were set up, do you still say that you would not want to deal with such an agency in the obtaining of gas for export?

A No, I haven't said that. It is a bare beginning and we suggest such a project in our present application. It is just exactly the same thing.

Q Yes, except that your Alberta Grid is wholly controlled, as you have told me this morning, by the United States company, isn't it?

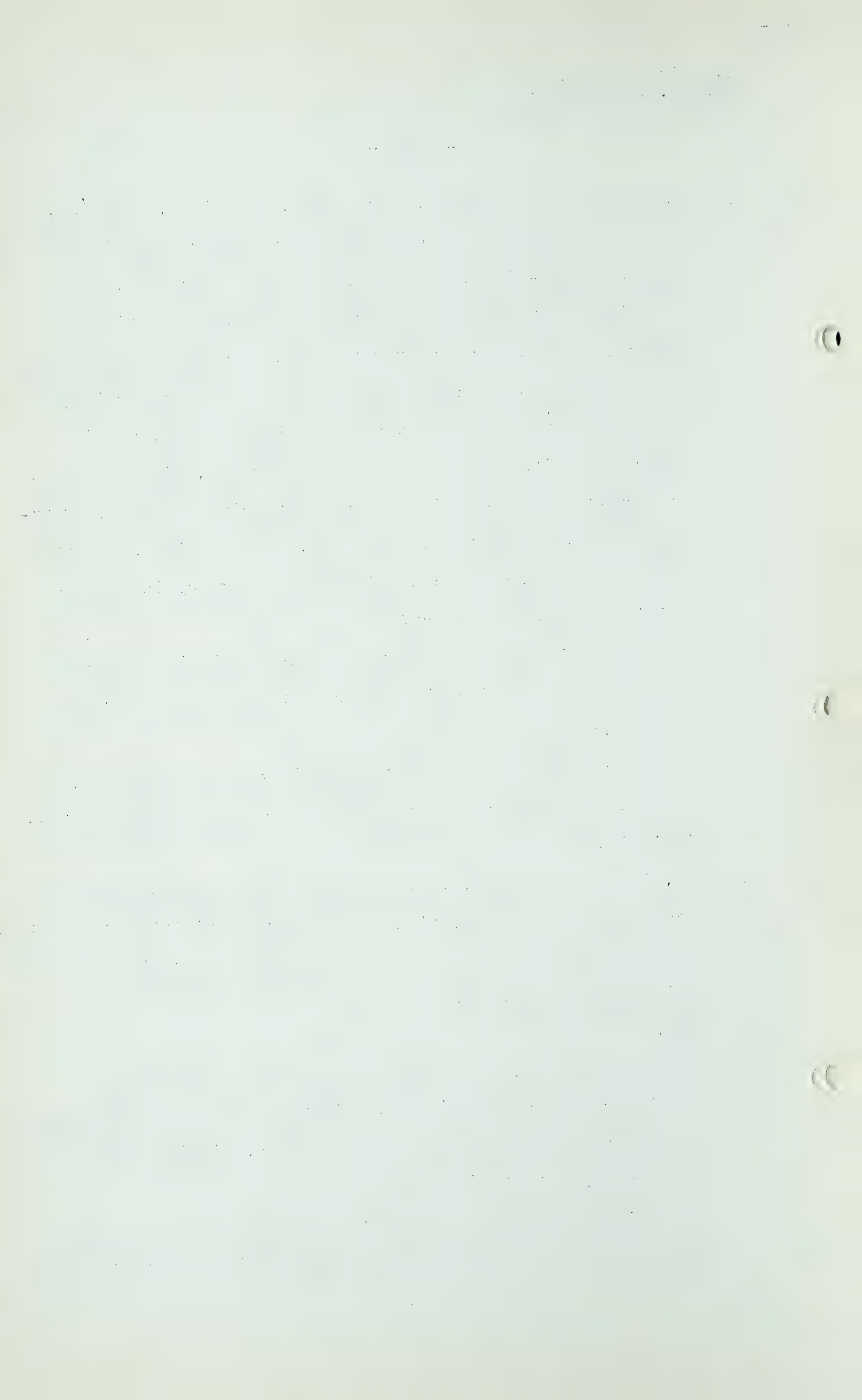
A No, it is controlled, yes, but it is completely under the control of the Conservation Board and the Utilities Commission.

Q I should have said that the share control rests with the United States company?

A Yes.

Q Now, is there any reason why the separate agency I have mentioned, if that were set up, is there any reason why you could not go ahead with your export plan, picking the gas up at the Provincial boundary?

A That will have to be answered by a financier. I have been told there are a great many difficulties in financing a line



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unless you have control of the gas from the field to the ultimate consumer. Unless you have that control it makes financing extremely difficult. Aside from that it is all right.

Q Will you explain to me why it is difficult, Mr. Dixon, to finance?

A Because you have no control of what you are doing in the important end of getting the gas.

Q I am sorry, I did not quite catch the first part of it?

A I say, you have no control of the very important function of getting the gas under such a condition.

Q Even if you had a firm contract for a block of gas from the gathering system operating the line?

A That would have to be considered by the bankers.

Q Pardon?

A That would have to be considered by the bankers.

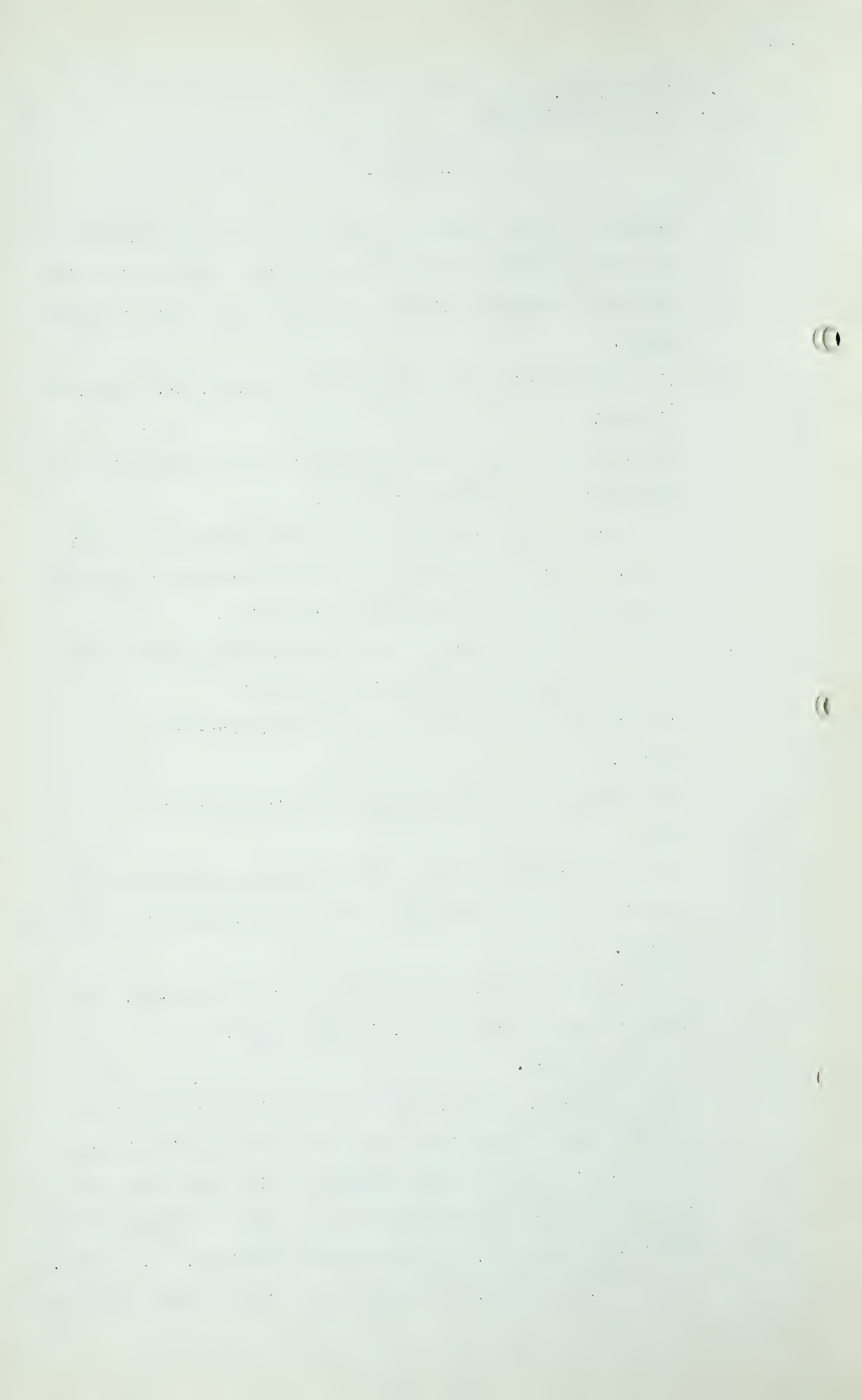
Q Yes?

A But I do not think that would be anywhere near as good security as one in which the same company owned the entire system.

Q So that if the bankers were happy about the set-up, you would be quite content too, is that right?

A That is correct.

Q Now, Mr. Dixon, you have been here so long that I do not think it will be difficult for you to take an imaginary position with me for a few moments. Supposing you were in the position of this Board, and of the Government of the Province of Alberta, you would not be anxious, or, I mean, you would, no doubt, be anxious under the circumstances we





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have then to completely control the natural gas within this Province until it leaves the Province?

A I think that would be my desire, of course, if I was in the place of the Cabinet here, and I think that was the idea of the Government here.

Q Yes?

A No one else has any other thought.

Q Yes. It is a desirable situation to maintain, is that not right?

A Not only desirable, but it is inevitable.

Q Yes. And I assume, then, you would also agree with me when I say that such control is absolutely essential if the expressed Government policies are to be given effect to, that is, the protection of local consumers as to supplies and price?

A Yes, that is in the discretion of the Government, of course, and within their supreme power always.

Q And if the control of gas in the Province, any part of it, gets away from the Provincial authorities, why, then it is impossible to control the general set-up, is that not right?

A If it should, your statements, I think, naturally follow.

Q That is all, thanks, Mr. Dixon.

THE CHAIRMAN: Mr. Smith, have you any questions?

MR. BREDIN: If I might just ask one or two questions, sir.

THE CHAIRMAN: Yes.

CROSS-EXAMINATION BY MR. BREDIN:

Q Mr. Dixon, I noticed in the letters offering you contracts for a number of these companies that they are addressed to



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you in two different offices in New York?

A Yes.

Q Is there any significance in that? Do you maintain two offices there?

A Yes. There is the office of the company at, it is 111 - Broadway, and then across the street there is an office at 120 Broadway, which is the office of Brokaw Dixon & McKie, so that I run between them, functioning as a partner in one, and at the same time as the President of this company at another time. I am the partner of one at one time and President of this at another.

Q Now, is it your intention, or has your company any plans to extract butanes and propanes from the gas either in Canada or in the United States?

A If we get any fields in which it is worth while to extract butane and propane from the natural gas, and there is any left in the gas when we get it, we will certainly extract it at the beginning of the line. We will not be extracting any of those constituents outside of Alberta.

Q Thank you.

EXAMINATION BY MR. C. E. SMITH:

Q Mr. Dixon, Mr. Mahaffy just read to you section 9 of The Preservation Act. And while I think of it, you will not need that Act in any questions from me, so that may I have it back?

A Yes.

Q It is the only one I have got here, that is why, Mr. Dixon.

A All right.

Q I take it that it is true, Mr. Dixon, that you and Canadian





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- Gulf, and I say "you" as representing the Northwest Natural Gas Company, had in mind not only section 9 of that Act, but the whole of the Act, when you entered into this contract?
- A Or any other Acts that are enacted in the future.
- Q Well, I am going to refer you to another one, the Oil and Gas Resources Conservation Act of 1950?
- A Yes.
- Q You both probably had in mind section 35 of that Act which, in general, empowers this Board to direct people who have gas to sell to somebody else in their discretion. Do you remember that section?
- A Yes. I think we have mentioned that many times, that they have absolute control.
- Q And also section 47 says that if there is any Order of the Board such that it is not in any agreement, written or oral, subject to one between a municipality and a supplier to the consumer, then the contract shall be invalid to the extent of that?
- A Yes, sir.
- Q You had that in mind, all of that in mind, when you entered into this contract with Gulf?
- A Yes.
- Q I think I started this about two years ago with all of you, as a matter of fact. You remember me mentioning it to you in my original questions to you?
- A Yes.
- Q So that this is no surprise, the power of these Boards, or of this Board under this Act, anyway, with respect to what they can do about the gas and everything else?



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A Yes. I found that out when I first arrived here.

Q I think, Mr. Dixon, in fairness to you, you also had in mind the evidence of Mr. Davis when he gave evidence before this Board as to Canadian Western's interest in the Pincher Creek field. You must have had that in mind, I take it.

A Well, I do not recall.

Q To summarize, he certainly indicated rather strongly that they were not interested in that field at the present time in any event, don't you remember that?

A Yes, I remember that.

Q You would have that in mind as well as these sections in these Acts?

A Certainly.

Q Referring to this contract, Mr. Dixon, and I know that you won't mind that most of the things I had in mind asking you have already been covered, and I won't need to question you with regard to them. Having regard to the contract with Gulf, that is exhibit 61, have you got it before you there?

A Yes, sir.

Q I wonder if you would refer to paragraph 2?

A Yes.

Q The first sub-paragraphs (a), (b) and (c).

A Yes.

Q Do your contracts with California Standard and Britalta-Deep Rock take care of the situation outlined in (a), (b) and (c) with Gulf?

A Yes.

Q Y u follow what I mean?

A Yes.





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Q The percentage of take?

A Yes, excepting (a) has been changed to 90%, or has been changed from 90%, I mean.

Q Yes. Sub-paragraph (a)?

A In (a) under paragraph 2, that has already been changed by an exchange of letters to 85.

Q That is to cover the  $7\frac{1}{2}\%$  which you must take from Britalta in the first year?

A Yes.

Q And give  $7\frac{1}{2}$  to Standard?

A Yes, sir.

Q They work 50-50?

A Yes.

Q And we then get those contracts all right. I mean, we haven't got those contracts yet, have we? I am sorry.

A I think they will be in at the recess, or maybe they are here now, I do not know.

Q I just wondered.

A One of them is just being printed.

Q But we will be able to see them in any event?

A Yes, sir.

Q And the situation there will, of course, be covered by your contract with the other companies?

A Yes, sir.

Q And then referring to (d), and it has been referred to before?

A Yes.

Q But if I understand that correctly, Mr. Dixon, your 176 million cubic feet per day is the maximum amount which you



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can get under this contract, am I right in that or not?

A Yes. Well, it might not be in the contract itself, but I think in actual operation if we need it they would be willing to push the plant and give us a little more.

Q I was just talking about the contract?

A Yes.

Q That figure here is the maximum amount under the contract that you could compel them to give you?

A Yes.

Q You do not have 176 times 365 times 25?

A No, we could not ask for that much.

Q Why not?

A It is an average of 156 million a day.

Q It is the minimum on the yearly basis, on the average of 156 million cubic feet per day?

A Yes.

Q Then is the total amount that you can take 156 times 365 times 25?

A Yes, that is the figure.

Q The reason I asked that is, is that the figure that we would use in interpreting paragraph 3 on the next page?

A Yes.

Q Where a reserve is found to be in excess of what you require?

A Yes.

Q That is the figure that we would have in mind to find any excess of reserve?

A Yes, sir.

Q Is that correct?

A That is correct.





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Q Now, referring to the top of page 3, Mr. Dixon. . .

A Yes, sir.

Q . . . there is one little phrase there that I am interested in, and that is, that the buyer and the seller, amongst other things, agreed to unitize "any of the said leases with properties of others in the field." Is that just a safety factor or is there some anticipation of some unitization?

A I think there is an anticipation with regard to unitization with the lease holders. The owners of the royalties have to consent to it.

Q What I am getting at is this: Are there any other people up there that have leases adjacent that might be unitized, apart from what we have heard here in this hearing?

A No, none in the surrounding area.

Q Then this is just for safety in the future?

A I think the reference to that is with regard to the royalty holders.

Q I do not quite follow, Mr. Dixon, what you mean by your reference to royalty holders?

A Well, in this whole field you have to have the consent of the royalty holders as well as the lease holders.

Q That is, the royalty holders may vary with regard to the different parts?

A Yes.

Q But, I mean, there is no other nice, juicy field up there?

A Not that I know of.

Q Like Pincher Creek, that you know of?

A No.



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Q Yes?

A There should be somewheres around, but I do not know where it is.

Q You have not got it in mind, so far as that is concerned?

A No, sir.

Q Now, at the top of page 7.

A Yes.

Q Well, I think Mr. McDonald dealt with this, so that I won't bother you with it.

A Yes.

Q The same page, paragraph 13?

A Yes.

Q There is a provision in the middle of the paragraph which reads as follows:

"Provided, however, in order for Seller to have the right to suspend deliveries or terminate this contract, Seller must first have notified Seattle Gas Company, British Columbia Electric Company, Limited, and Portland Gas and Coke Company . . . "

I think I have an idea why that is put in, but will you explain why that is in the contract, Mr. Dixon?

A That is for the protection of the consumers.

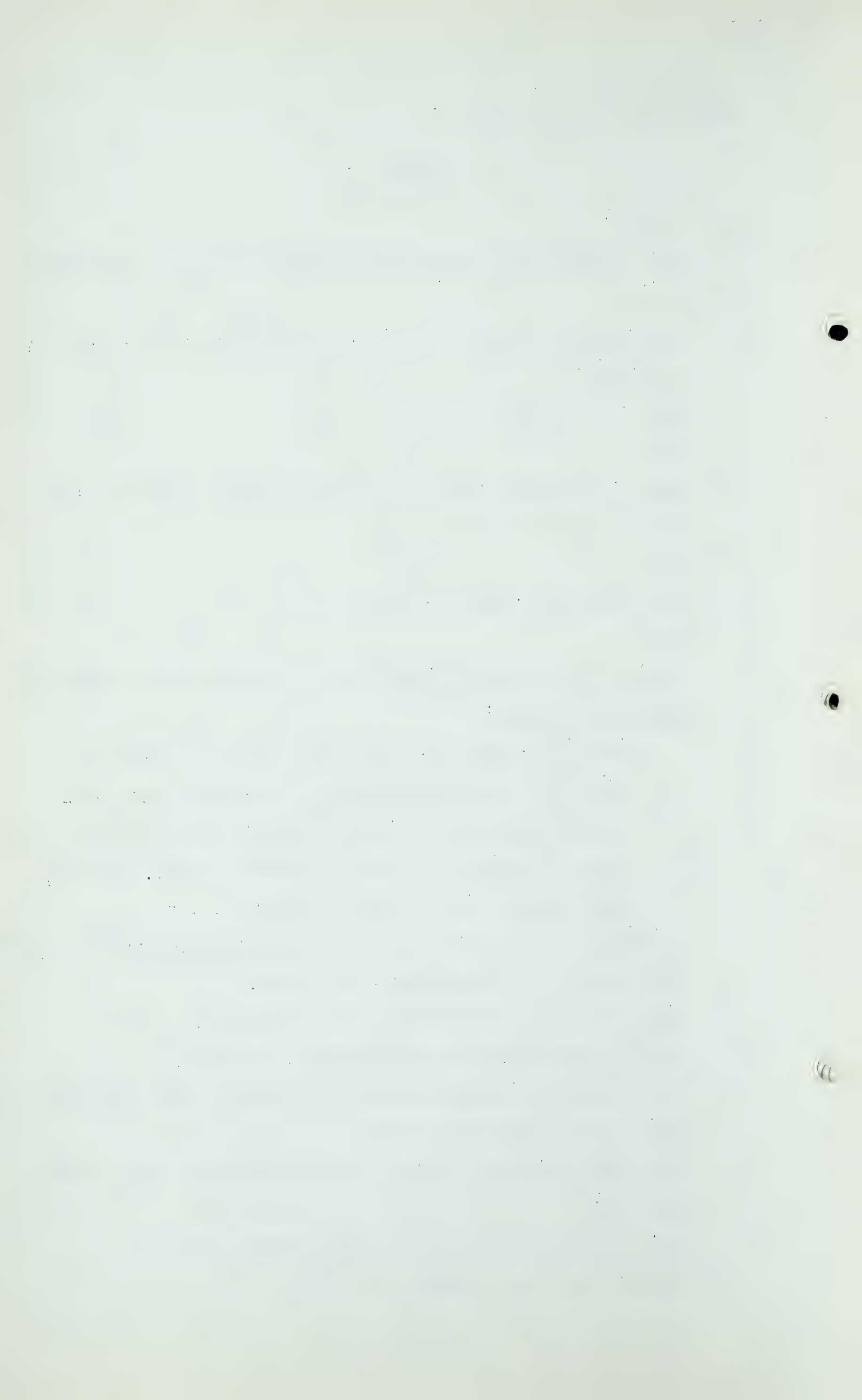
Q For the protection of the consumers, just why?

A If we were in financial trouble they would have the right to keep things going themselves.

Q They would have the right to make the payment that was due from you?

A Yes. That is the only particular reason for that.

Q There is no other reason for that?





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A No.

Q Except it might protect them to some extent, is that the idea?

A Yes.

Q Yes?

A That was something that was desirable from the point of view of the distributing companies.

Q It does not indicate, by any means, and this was dealt with by Mr. Mahaffy, that they have any actual financial interest in Northwest Natural Gas Company, or anything of that kind?

A No, none whatever.

Q Just a protection clause, in view of your contracts with them?

A That is right.

Q Except that the British Columbia Electric has not yet, in any event, a contract with you?

A No.

Q That is anticipated, I take it?

A Yes.

Q And that is why they are there?

A Yes.

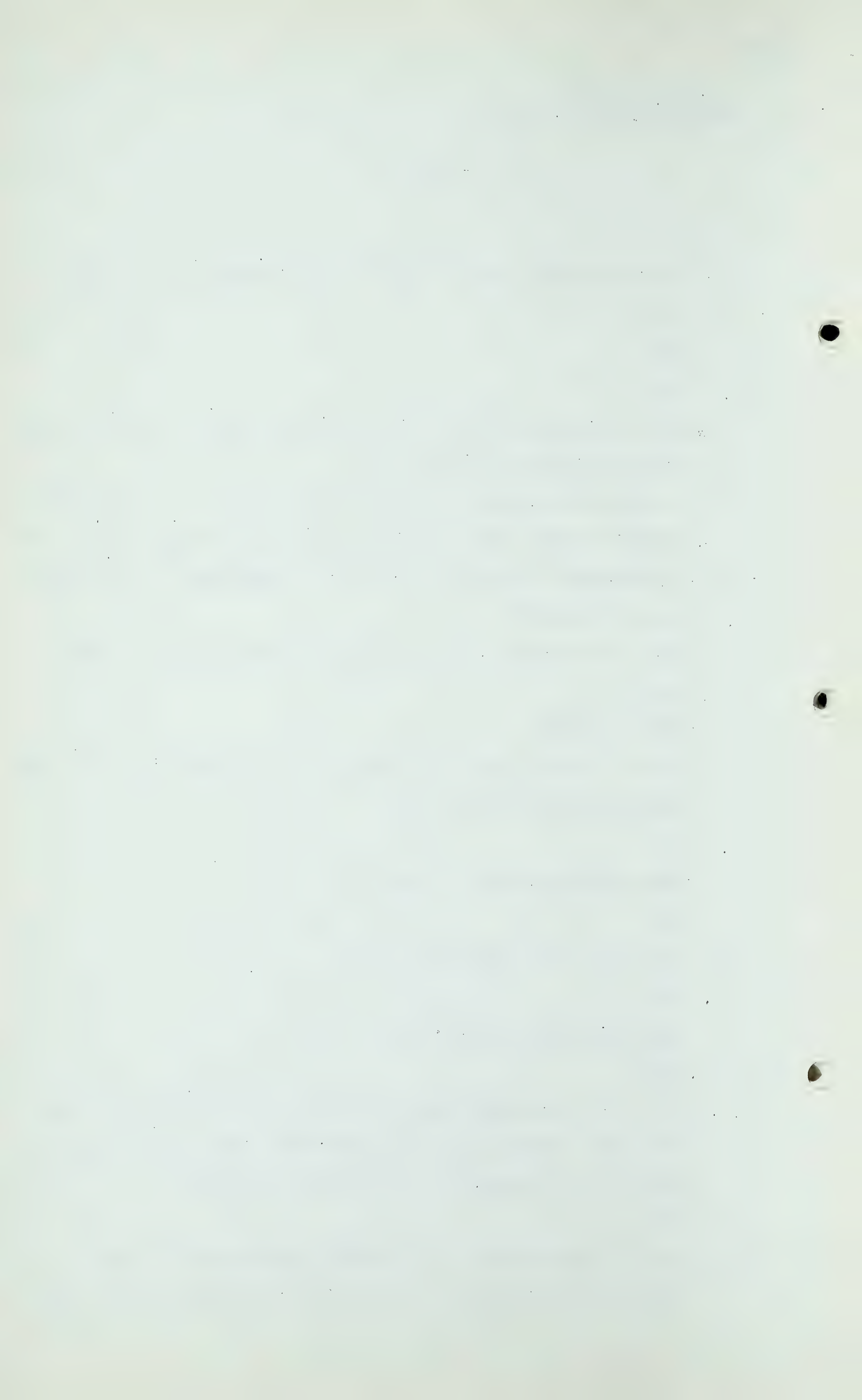
Q And referring to clause 14 . . .

A Yes.

Q . . . no, I have got Mahaffy there, so that I won't bother with that. Referring to paragraph 17, and that portion of it at the top of page 9, in the last sentence.

A Yes.

Q "In case the Province of Alberta grants someone other than Buyer a permit to export gas from Alberta, which has



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"the effect of excluding Buyer from the export of gas for the project contemplated hereby, Seller shall have the right to cancel this contract immediately."

A Yes.

Q Will you give me an example of what was anticipated when that clause was put in there?

A Well, in case we were denied the permit or did not get one by that date, that this contract was null and void.

Q It does not say "in case it is denied", it says "in case the Province of Alberta", and I wondered if that were the correct expression, incidentally, "grants someone other than Buyer a permit to export gas." I will put it to you, for instance, if a permit was granted to Westcoast, would that be an illustration of what this clause says?

A I think it would.

Q Or Prairie, or at least, Pacific Northwest?

A It might. I do not know. I could not say that that would be; that would be very difficult.

Q What I have in mind is that the language is not what you said a moment ago, in case of your denial of the application. The denial of the application to you?

A It is because of the fact or a case that if Alberta does something which has the effect of keeping us from exporting gas . . .

Q Oh, it does not say so. It says ". . . which has the effect of excluding Buyer from the export of gas for the project contemplated hereby . . ."





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A Yes.

Q But I say if the permit was given to Westcoast, pursuant to their application, would that be an illustration of what is intended to be covered by that, in your opinion, intended to be covered by this, or, say, the Pacific Northwest?

A Well, it would depend under those conditions of whether or not we would be allowed to export. If we were allowed to export as well as Westcoast, I do not think that would apply.

Q If you both got a permit then you would not be excluded?

A I think not.

Q If they got one and you did not, you figured you would be excluded?

A Yes.

Q Is that the way we can interpret that?

A I think that is the way we would interpret it.

THE CHAIRMAN: I think we will adjourn for a few minutes, Mr. Smith.

(Hearing resumed after a short adjournment.)

(Go to page 2196.)



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Q MR. SMITH: Mr. Dixon, will you refer to the same contract, Exhibit 61, and to section 25 thereof at the top of page 11. I notice in the event of arbitration and in the event of the third member of the arbitration board not being agreed upon that you have made provision for the Senior Federal District Judge of the District of Columbia to be that third member of the Board. You remember that without reading the whole section?

A Yes.

Q And in 27-D you say this contract shall be construed in accordance with the laws of the Province of Alberta. I was wondering why the Senior Federal District Judge of the District of Columbia was made the third member in the event of non-agreement. Is there any point in that?

A Well, that is in a great many contracts in the United States. They give that power to the Federal District Judge who will then appoint somebody else and it was put in there just because it was customary, without much thought of it.

Q Well, I mean, it would not be customary, I would not think, with respect to a contract which shall be construed in accordance with the laws of the Province of Alberta, that is what I had in mind.

A No, I do not think that is a very good feature, as a matter of fact.

Q I did not catch you.

A I say, I do not think that is a very good feature and I did not exactly like it.

Q Is there any significance to it other than that it is in some American contracts, if I may call them that?





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A None that I know of.

Q There is no reason that you know of other than it has been in their contracts and went into this one, is that the idea?

A That is all I know about it.

Q Okay. So much for that. With regard to your letter from Britalta, we have already dealt with that when I referred to the matter of Section 2. Amerada, we have already dealt with that. Look at Exhibit 67 for a moment. That is a contract between Northwest and Portland. First, referring to Section 14 on page 4, and I do not want to go into what Mr. McDonald thoroughly dealt with yesterday or the day before, but in that Section 14 you have the expression "not less than 150 pounds per square inch gauge pressure". Now, you explained the 100 pounds that appears in the exhibit to the Gulf contract. You will remember that thing. What is this thing called?

A Yes, I remember that.

Q Your schematic flow chart?

A Yes, sir.

Q And I notice that the Gulf contract is made an exhibit to the contract with Portland Gas Company?

A Yes, sir.

Q And was there any discussion, if I may put it that way, with respect to the apparent contradiction of Section 14 of the contract with the Portland people and with the exhibit to it which shows 100 pounds in your schematic flow chart?

A Yes, there was a great deal of discussion.

Q I was wondering why one or the other was not changed.



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A They wanted 250 pounds at Portland.

Q They wanted 250 pounds, and in the exhibit it was 100.

A That was agreed upon as a bargaining point. They wanted 250 pounds and I wanted to give them 100 pounds and we finally agreed on 150.

Q You compromised by putting in the text 150 and in the exhibit 100, is that what you mean?

A Well, I think this contract supersedes the Gulf contract.

Q It may supersede it?

A It was made after the Gulf contract was signed.

Q Yes, and that was made an exhibit to the contract with the Portland Gas Company?

A Yes, sir.

Q I was wondering why in the exhibit it is 100 and in the text it is 150, that is all. You have your way in the exhibit, they have their way in the text, is that what it amounts to?

A Well, they have their way because the text supersedes the exhibit.

Q Sounds like a saw-off.

A They are not asking for 108, as we have there. They are only asking for a peak of 70.

Q Now, I suggest this should be 150 instead of 100 in this schematic flow chart in the exhibit?

A No.

Q All right. And referring to page 6 in sub-paragraph C at the bottom of the page, of Section 18,

"The parties recognize that economic factors  
over which they have no control may require





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"a revision of the estimates upon which the foregoing price provisions of this Section 18 are based. Accordingly, prior to the filing of seller's initial rate schedule with the Federal Power Commission and prior to the completion of the physical construction of its pipeline, seller will make available to the buyer all data which may then be pertinent to a mutual determination of the reasonableness of the foregoing price provisions."

Quite candidly, I do not understand that, and would you explain it, Mr. Dixon?

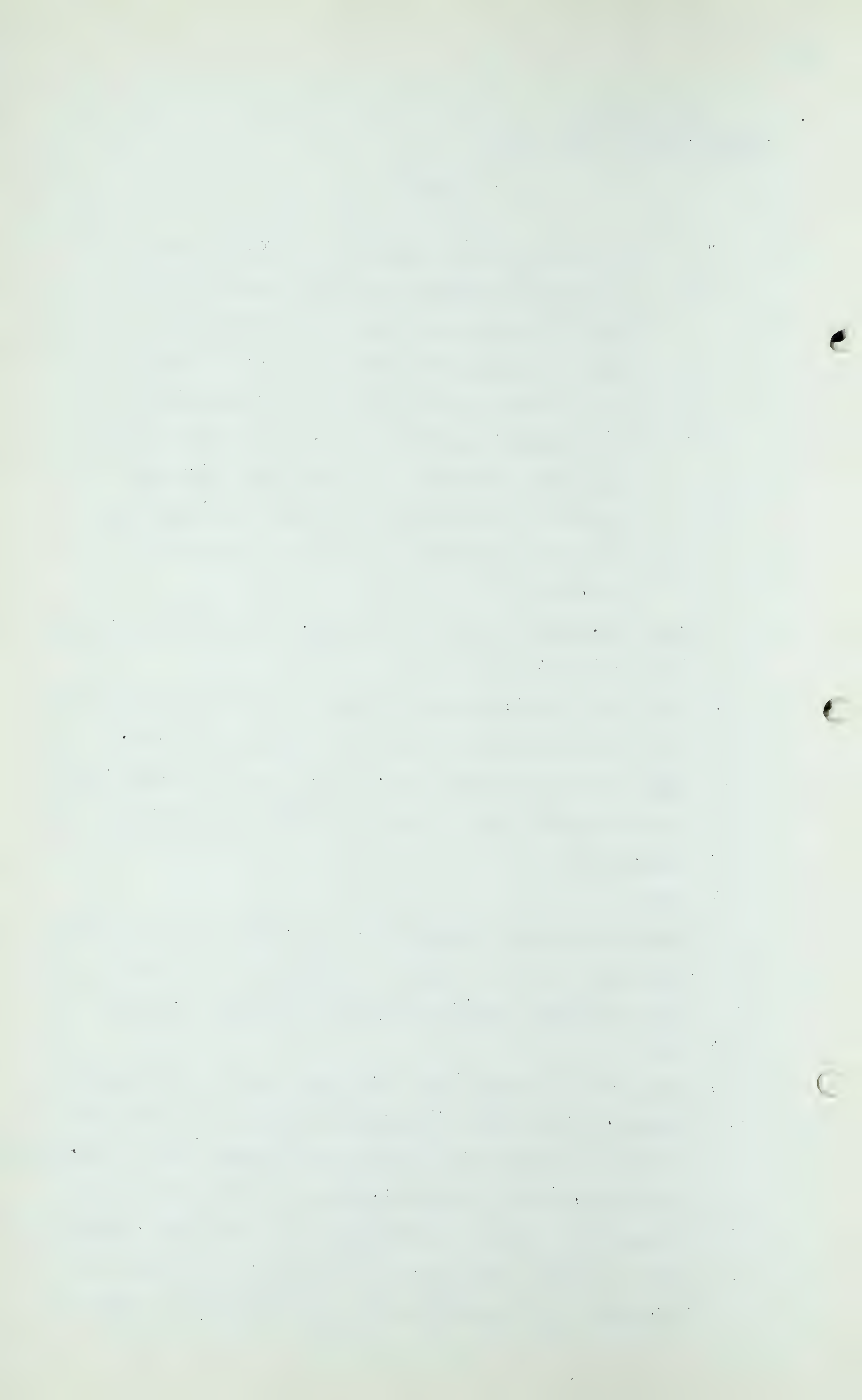
A Yes, sir. When you apply to the Federal Power Commission you state the prices at which you expect to sell the gas. That is in the form of a schedule. Now, that price may or may not be the same as the prices that you have made contracts for.

Q Yes?

A The Federal Power Commission, in any case, has absolute authority to set the price providing that you give a return that is proper under the Act for the money invested.

Q Yes?

A Now, it is unlikely that this exact price of a demand charge of \$3.03 and a commodity charge of 18 cents will be the price we will ask for in the Federal Power Commission. It may be lower, it may be higher, but it would be very close to it, but it is unlikely to be the exact figure. If it was the exact figure and we put it in either the consumer, the distributor or ourselves could go back to



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the Federal Power Commission and ask for a revision. Their function is to see that the consumers get a price for the gas giving no more than the statutory rate of return allowed to a pipeline company. There have been cases where the change of circumstances have greatly increased the price at which they were originally contracted for, rises in the price of steel, changes in conditions, and the application to the Federal Power has been far in excess than the contract rate stated originally in the application.

Q And I suppose if your line expenses generally cost more than anticipated you would be requesting the Federal Power Commission for a rate higher than contained in this contract, is that true?

A Yes. And if it is lower, the distributors would be requesting a rate lower than this.

Q So that really as far as this price is concerned it is subject to Federal Power Commission control, is that a fair way to put it?

A Yes, it had absolute control.

Q What about anticipated sales to B.C. Electric? Can you explain in what way the Federal Power Commission might operate in fixing the price that you might sell to the B.C. Electric?

A I should think they would fix the rate at which we would transport gas between the export point and the import point.

Q Take in your system, would they fix a price, say, at Kingsgate where it enters the United States?

A No, I think that would be determined by the Canadian authorities, maybe by the Transport Board.





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Q Now, where it enters the United States, wouldn't the Federal Power Commission set the price there?

A Where it enters? Oh, no.

Q In order to assist them in fixing a price going into B.C.?

A No. As I envision the method by which we would transport that gas would be merely a transportation charge from Kingsgate to the border just south of Vancouver.

Q What I am getting at really is this, it seems to me there is a possibility that the B.C. people might be paying more because of an extra charge being imposed by the Federal Power Commission having regard to the price being fixed at Kingsgate to start with?

A I think the B.C. people would see to it by our contractual relations, if we are so fortunate as to make it, that that can not happen.

Q You will see that the B.C. people will see to it to have some firm arrangement in the contract with you to cover this situation which I have in mind?

A I have no doubt in regard to that.

Q You probably think, no doubt, they should or you would have, you would think, is that a good way to put it?

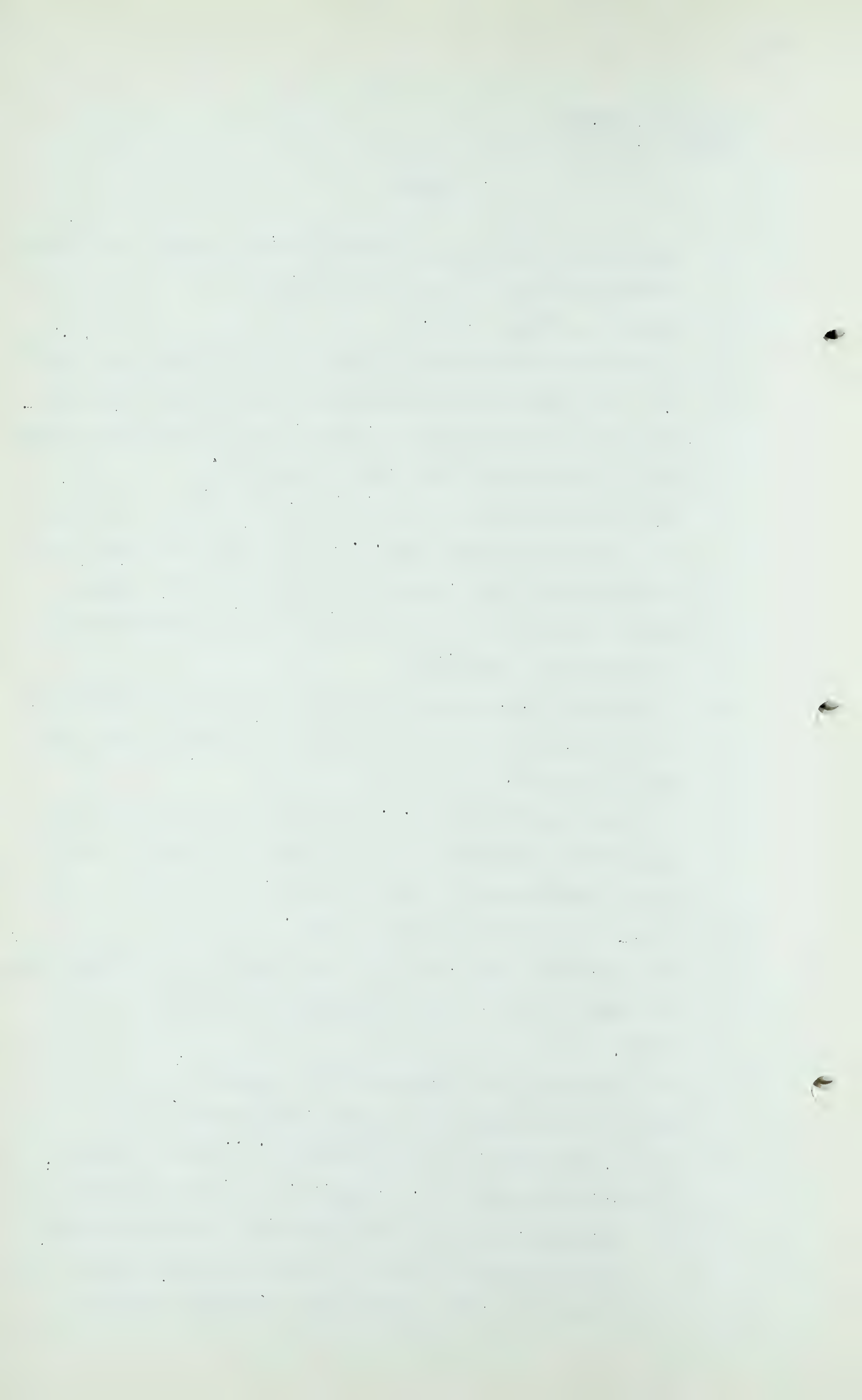
A Yes.

Q To avoid any such eventuality as I suggest?

A They will certainly put up every safeguard.

Q Now, with regard to safeguarding B.C., will you look at Section 32 on page 7, Mr. Dixon, and I will read that:

"Seller expects and has consented to have conditions placed upon its rights to export gas from Canada, with which Buyer is familiar. Seller's proposed



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"system will return certain of the gas exported from Canada to Canada for delivery to users in British Columbia and expects, and has consented to have as one of the conditions of its right to export gas, that the users in British Columbia shall have priority over users in the United States, and the parties therefore agree that Canadian users connected to Seller's system shall have priority over Buyer's requirements."

Now, in so far as that Section is concerned, what happens if this priority referred to here is not given to the consumers of B.C.?

A I should think B.C. would shut the gas off at Kingsgate and there would be no gas coming into the United States.

Q That B.C. would what?

A Shut off the gas in Canada if the company broke its promise.

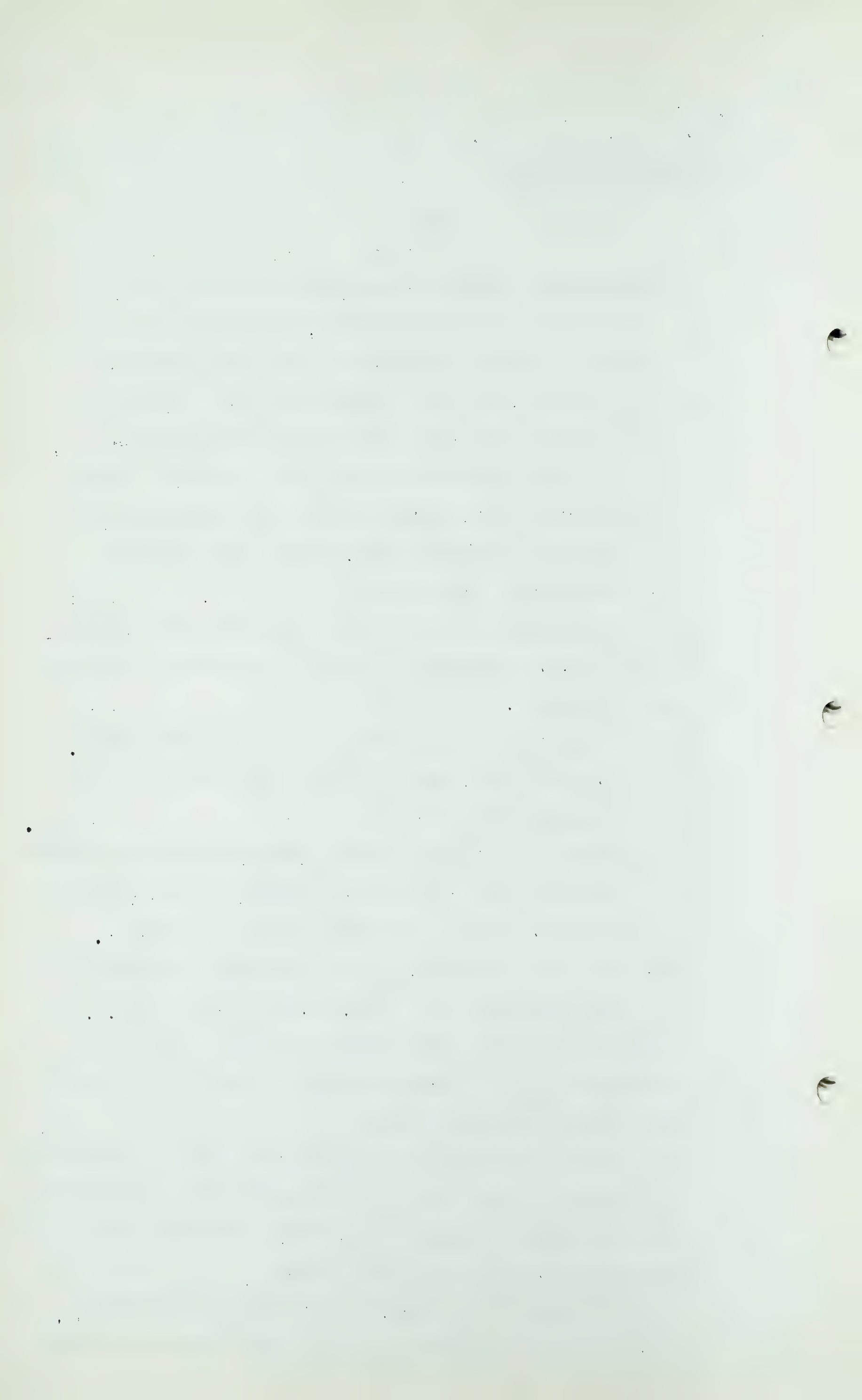
Q Well, you think that the B.C. Government, to use a general term, would have power to do that, is that correct?

A Either the B.C. Government or the Canadian Government.

Q Well, that may be an idea. In so far as this contract is concerned, I take it that the B.C. consumer or the B.C. Government would not have any right to enforce your agreement between you and Portland?

A We will make commitments that we will do certain things and if we do not do them then I should think while the gas was still in British Columbia or in Canada they would have a perfect right to do what they pleased.

Q In other words, it is a matter of turning a tap rather than something in a contract, that is what you are saying, is it?





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A Well, this would be a contract that we would make from the Transport Board, I suppose, and we would be supposed to keep it.

Q Well, that may be a better method than this clause of securing protection to B.C. All I am getting at is that this clause in this agreement between you two people in my humble opinion does not really effectively protect the British Columbia consumer.

A But it keeps us from being sued by the consumers in the United States who consent to the priority of Canada in gas coming through.

Q Oh, it may protect you as against what you have just suggested. I understood you the other day as particularly referring to this as the thing which protects the B.C. people.

A Well, I think it is a help, certainly.

Q Well, I mean, you stated certain things here but I was wondering how anything could be enforced in the event that priority is not given in so far as the B.C. consumers are concerned. Do you follow me?

A Yes.

Q Basically they are not a party to this agreement, probably that is the best way to put it.

A No. We are trying to lay the groundwork so that they can make an agreement in which they are fully protected.

Q And when you say with respect to this contract, Section 36:

"This Contract shall be construed in accordance  
with the laws of the State of Oregon",

has that any effect on Section 32 that I have just read?



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A I do not think so.

Q And I suppose the same remarks that you have made with regard to Exhibit 67, Northwest and Portland, apply to the one with the Seattle Gas Company?

A Yes.

Q They are identical, aren't they?

A Yes.

Q I did not read them both, I hope they are.

A They are from the same printer.

Q With regard to Exhibit 65, "Design and Estimated Cost of Gathering System", on the first page and second paragraph,

"This exhibit is concerned with this modified  
plan and sets forth a system which will utilize  
gas from Pincher Creek."

Now, in view of what you have already told us, am I right in saying that it should now read:

" - from Pincher Creek, Princess-Patricia, Many  
Islands Lake and Dunmore"?

A That is correct.

Q If I re-word this thing?

A That is the way it should read now.

Q And with respect to the schematic flow chart at the back of this exhibit, I take it we cross out the line up to Sunnynook and the figures relating thereto, is that correct?

A That is correct.

Q And the one to Countess?

A The same, and we build a line --

Q Down to Dunmore?

A Dunmore, which is practically identical with the line to Countess.





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Q I wonder would it be too much trouble for some of you people to give us a substitute schematic flow chart with that done?

A All right, we will do that for you.

Q So that it substitutes it instead of scratching out a lot of stuff?

A Yes, we will. We drew this map before we had made the contracts.

Q And I think you may have already dealt with this evidence on page 2, your maximum day requirements. This is paragraph 2, page 2, of the same Exhibit 65, the one I was reading from, "Design and Estimated Cost of Gathering System". The second paragraph on page 2 you refer to your requirement of 299,506.

A What line is that in?

Q The second paragraph, second line.

A Oh, yes.

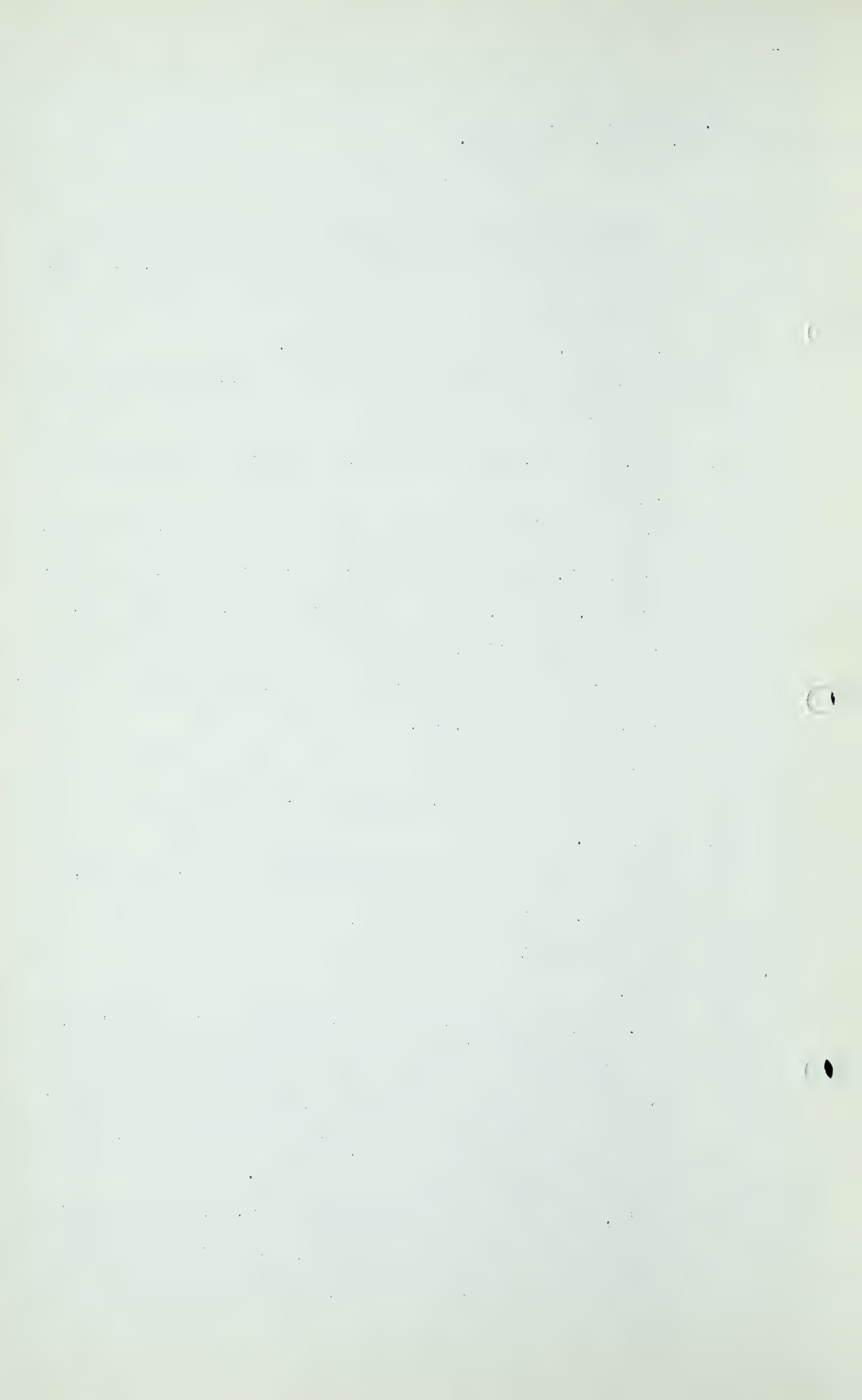
Q I take it that that includes 50 million from Dunmore, does it, now?

A From Dunmore?

Q Yes.

A No. Dunmore was drawn in in bargaining with the California Standard and as a matter of fact I think we will in our calculations just sort of have Dunmore as a little extra and our figuring will be from Princess and the Britalta field with Dunmore sort of thrown in.

Q Well, maybe I have got the wrong idea. I thought that on your present schematic flow chart if I scratched out Sunnynook and Countess thereby scratching out 30 million,



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20 million and put in Dunmore, then I added 50 million, to give us a total round figure of 300?

A We are somewhat changing the amounts that we will be taking. Many Islands would be more than 25 million as a maximum. There is 25 million average and 25 million average from Princess.

Q All the more reason you might give us a new schematic flow chart?

A Yes, we should have it.

Q Which will include Dunmore, of course?

A Yes, of course.

Q Now, referring to your Exhibit 66, just one question there. On page 1 of Exhibit 66, that is the "Estimate of Annual Revenue and Expenses", and the third paragraph:

"Accordingly, the average sales price is 3.58  
cents per Mcf."

for fifth year. That is correct, is it?

A Yes.

Q "For fifth year" is not in there?

A No, but that should be in.

Q What you said before, I have written it in, you see, and I take it, having regard to your exhibits attached hereto, the first year is 36.15, is that correct or not?

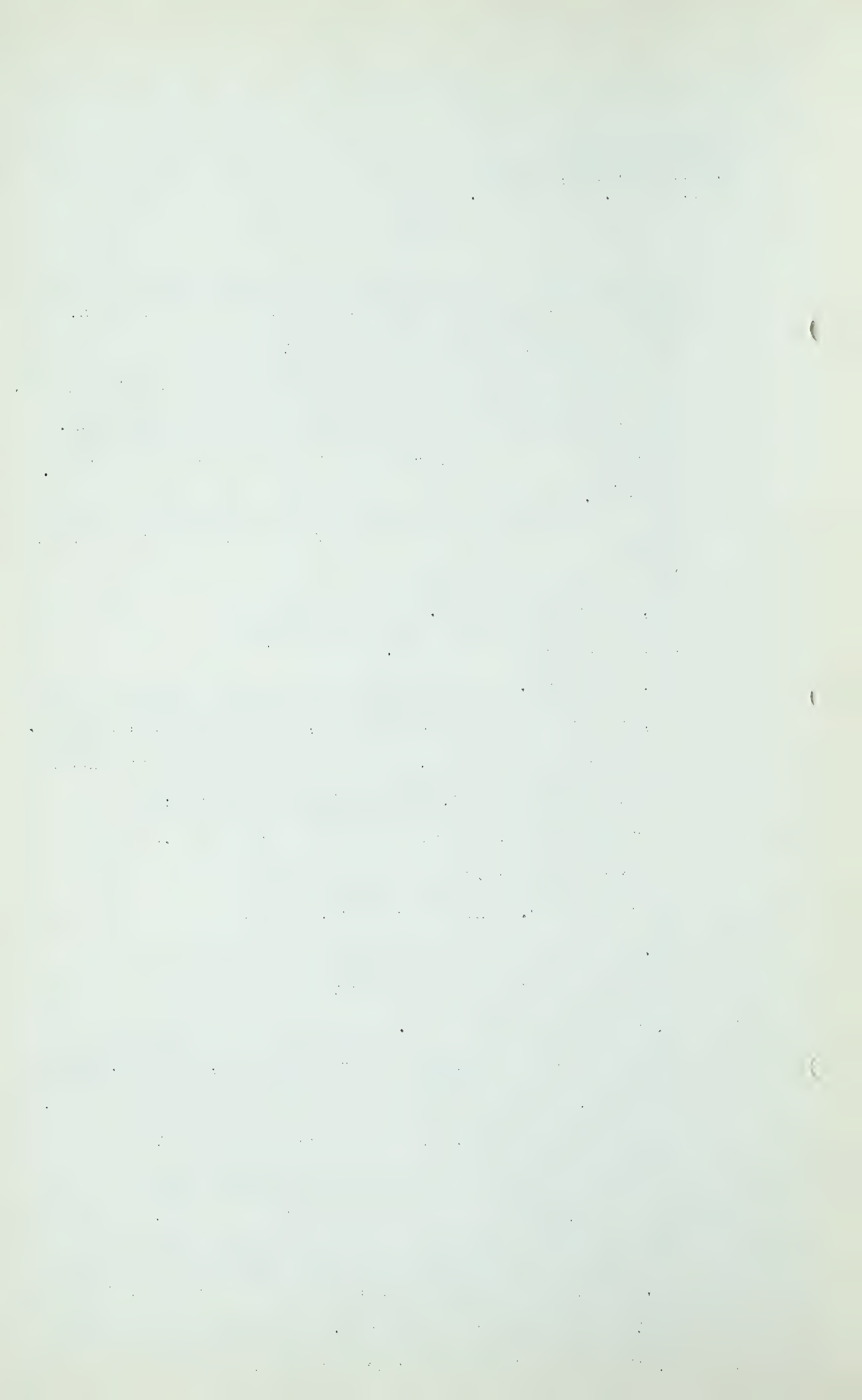
A You mean in Exhibit --

Q At page 11, this is where I got my figures from.

A Page 11 of 66?

Q Yes. I take it your first line had reference to a first year? Maybe I am wrong in that.

A No, that is just the reference to the amount of gas going





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through, what the cost would be in any year.

Q Well, having regard to your last column, "Total Cost ¢ Per Mcf.", with respect to anything relating to your first column we will add at the moment 10.75, for instance, to 25.40 and so on down the line, is that right?

A That will be right.

Q I mean, 10.75 is the closest we can get to it at the moment?

A Yes.

Q That is where I get my 36.15, but that does not refer to the first year?

A Well, the price of gas in each year should be added to that. This is the cost of transporting the gas on page 11.

Q You say that does not refer to years necessarily?

A No, sir.

Q Although I notice your last line, if you add 20.33 and 11.25 it will give you 31.58 that you have on page 1?

A That is for the fifth year. The last line is for the fifth year.

Q But the others have no regard to years, is that the idea?

A The other items of the gathering costs and the transmission costs have no regard to the years. The last line total gives per Mcf. as for the fifth year.

Q I would be wrong in taking the first line as referring to the first year, is that a fair way of putting it?

A That would be a fair way, yes.

Q DR. GOVIER: Mr. Dixon, do those transmission costs all reflect capital charges as for the fifth year?

A Yes.



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Q MR. SMITH: Now, there is just one other question and it has been dealt with previously, I think, by Mr. Mahaffy and maybe some others, and that is respect to the question of what the Federal Power Commission might do or be able to do in so far as gas going into B.C. from your line, which is in the United States. Do you follow me?

A Yes.

Q Is there any reason why they can not do or might not do what I understand they did down in Eastern Canada with respect to the Panhandle people and the Union Gas Company? You know what I am talking about?

A Yes, I know very well. That was a very different condition. The Union Gas Company had a contract for excess gas. After the contract was so worded and they thought there was going to be a very large amount of excess gas, times changed and the people along the line were taking gas in a great deal greater volumes than it had been anticipated, and also the Panhandle unfortunately had contracts which were open-end to give the entire supply to a city of all its gas requirements. Well, when the demand for gas vastly increased there was no possibility of meeting all the demands put upon the Panhandle before it got to Windsor, wherefor there was for a time no excess of gas. It was a contractual relation that had been entered into by the Canadian company in which they were unfortunate in its final results. It had nothing to do with international matters, it was entirely due to the contractual matter.

Q Well, tell me this, Mr. Dixon. Isn't it possible for the F.P.C. to say to you people when you apply for a permit to





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send gas from the United States into British Columbia that there should be no delivery of gas to B.C., whenever there is not sufficient gas for consumption or storage for customers in the United States for commercial, industrial, and so on?

A I do not think they could possibly do that.

Q Do you mean they would do it or could do it?

A I do not think they could do it.

Q Supposing this situation arose, that you did not have enough gas to keep Seattle warm and Vancouver warm, could not the F.P.C. step in and say, "We are going to look after Seattle first"?

A No, I do not think so, if we had the proper contractual relations with Vancouver. I think they would be forced to give Vancouver the preference.

Q The F.P.C. just could not do that?

A You mean the Federal Power Commission could not do it?

Q Yes.

A That is my opinion.

Q Or anybody else down there?

A Yes, I think that is my strong opinion.

Q I used the words "could not" or "would not", you know.

A That is what I understand. I do not think they would have the power to do it because they could not force necessarily a person to break their contract.

Q Well, maybe you will agree with Mr. Mahaffy's suggestion that some of our Acts of Government can force people to break contracts. That is true, isn't it?

A That is more than I know.



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Q It was referred to just now that there is power stated in the Act anyway whereby a contract is partially broken or abrogated.

A You know that when you are making the contract.

Q All I am talking about is to get your opinion as to the power of the F.P.C. or any other United States regulatory body to prevent gas going into B.C.

A I do not think they would have any more power to do that than if they were shipping a trainload of wheat across Ontario and to grab that wheat en route. I think that would be the direct parallel to it.

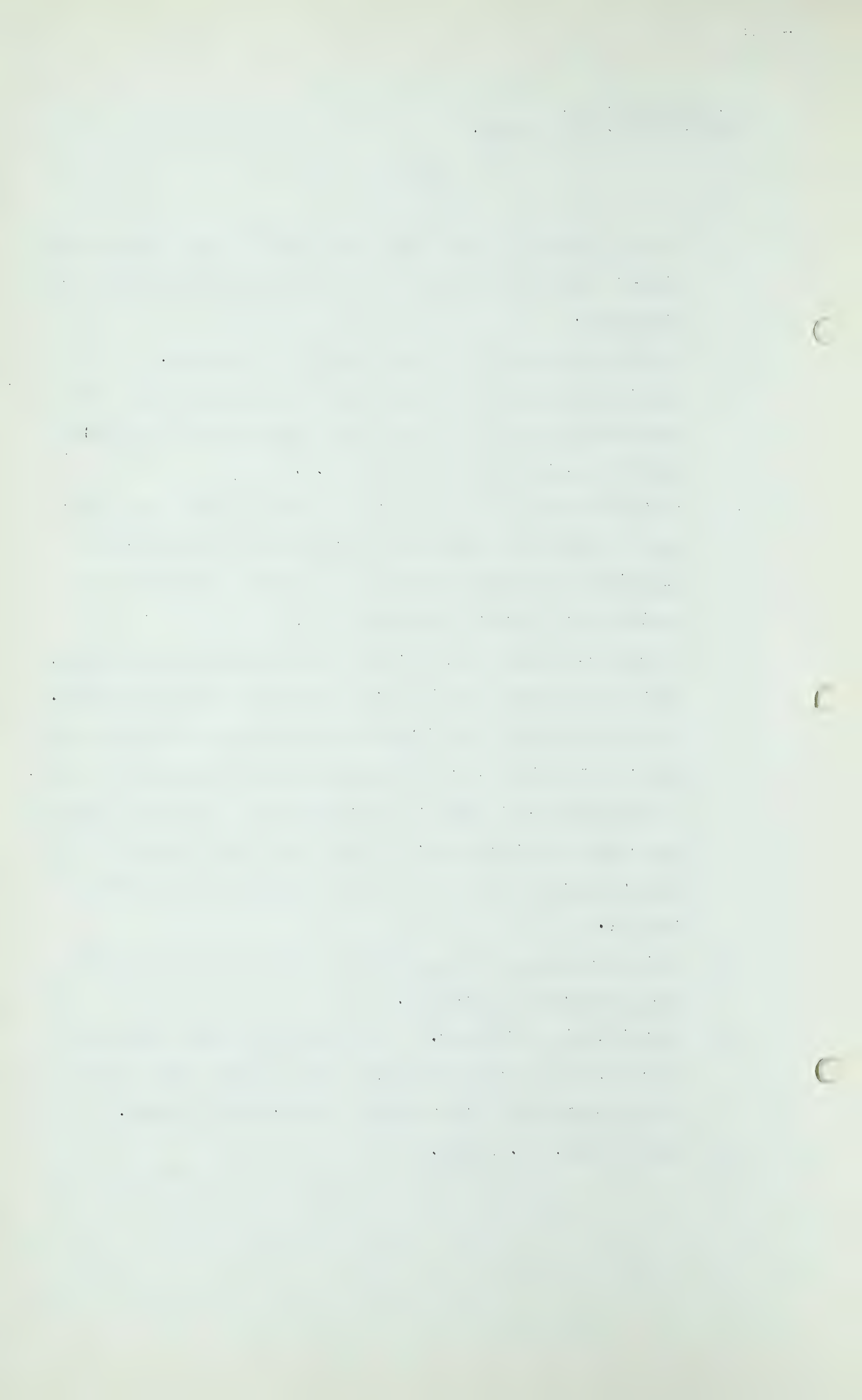
Q In Eastern Canada they stopped the Canadians getting gas, there is no doubt about that? They had power to do that.

A They did not stop the Canadians getting gas. The Canadians had contracted in such a manner they could not get the gas. If they had had a firm contract and paid a bit more for the gas under a firm contract I think they would still have got the gas because all of the firm commitments were taken care of.

Q I am sure you are talking about power and not how they would exercise discretion.

A I am thinking of power. I do not think under proper contractual relations that there would be any power in the United States to stop that gas from coming through.

Q That is all, Mr. Dixon.





A. Faison Dixon,  
Cr. Ex. by Mr. McDonald.  
Cr. Ex. by Mr. Milvain.

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CROSS-EXAMINATION BY MR. McDONALD.

Q I just have one question, sir, arising out of Mr. Smith's examination. From a practical standpoint, Mr. Dixon, I was thinking of your suggestion that the B.C. Government would have power to shut the valve at Kingsgate. I was wondering if they did that would they not also shut off the supply to Vancouver?

A Certainly.

Q So that it is very doubtful if that, from a practical standpoint, is an approach to our problem.

CROSS-EXAMINATION BY MR. MILVAIN:

Q If I might be permitted to ask just one question arising from what occurred in Mr. Smith's cross-examination. I am wondering, Mr. Dixon, whether or not it is in the power of the United States Federal Power Commission to impose a term in any permit which it might grant you that would be similar to the terms that it imposed in the Panhandle export to the Union in Ontario, because, as I understand it, this restriction was imposed by the Federal Power Commission regardless of whatever the contractual right might have been?

A Well, as I understand what you are asking me, what can the Federal Power Commission impose? They might want to impose all manner of things. If they imposed restrictions that would stop the ability of this company to deliver gas freely to Vancouver then under those circumstances we would get no permit from Canada.

Q But it is within the power of the Commission, assuming it



A. Faison Dixon,  
Cr. Ex. by Mr. Milvain.

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grants you a permit to serve customers in the United States, that it might attach as a term of that permit a restriction prohibiting you delivering gas from your system to Canada?

A If they did such a thing it would be the same thing as saying, "You can not build the line".

Q What you mean to say is --

A I do not know whether they could put in such a condition. Assuming they could, it would be just exactly the same as denying permission to enter the State.

Q In effect, what you are telling us is that if the Federal Power Commission sought to impose such a condition on the permit, you would then refuse to accept the permit?

A We would not have the opportunity to refuse to accept it, we would never be getting the gas out of Canada.

Q Well, I do not know that you have quite answered my question. I am saying, let us assume that the Federal Power Commission when you applied to them for a permit, says, "All right, Mr. Dixon, we will let you supply gas to the customers in the United States but we are going to impose as a condition of that permit that if your American customers need the gas no more will go on out to Canada."

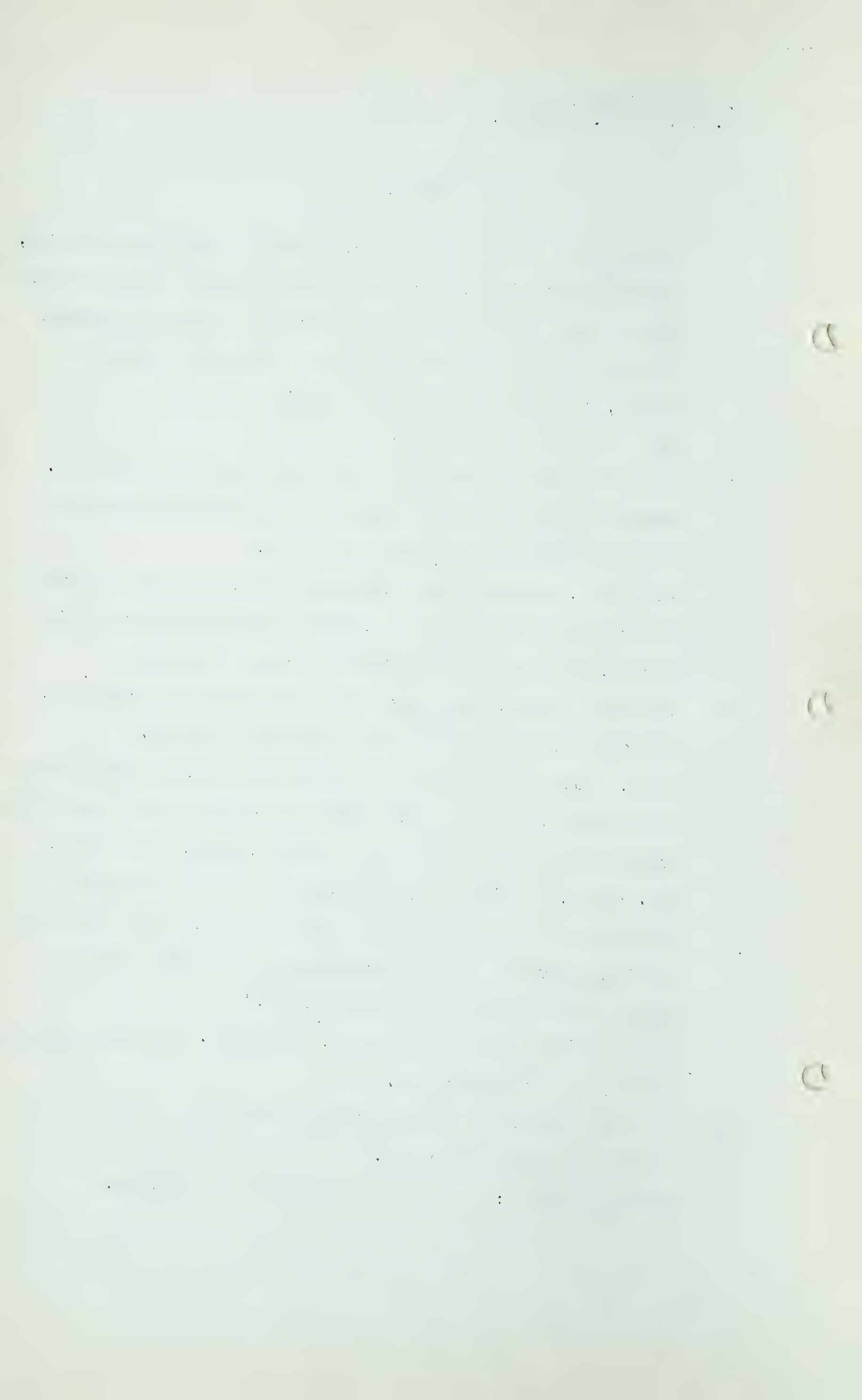
A We would not accept the permit, of course. It would not do us any good to accept it.

Q But the Commission could perhaps impose it?

A I do not think they could.

MR. S.B. SMITH:

I have no questions.





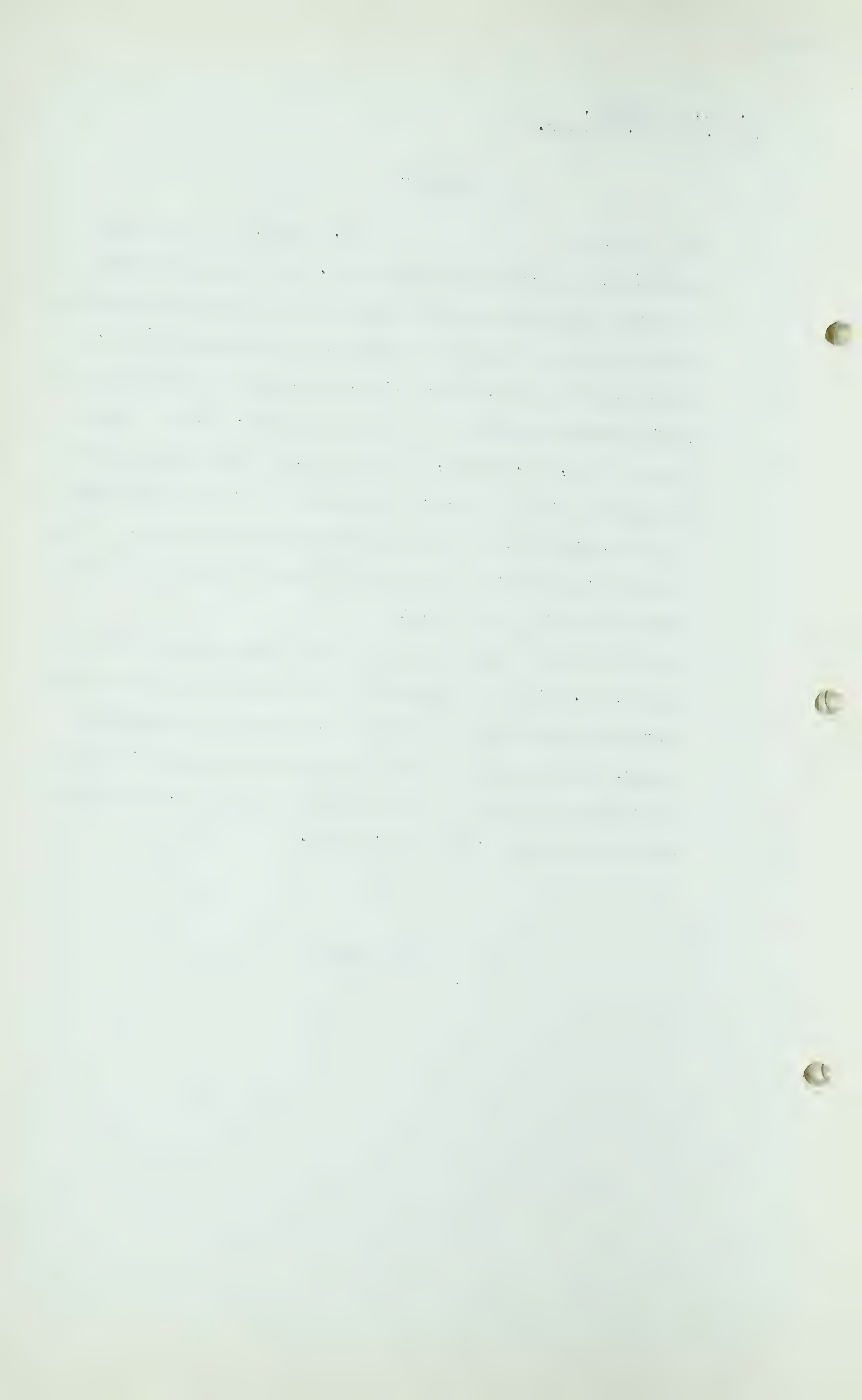
A. Faison Dixon,  
Exam. by Dr. Govier.

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Q DR. GOVIER: Mr. Dixon, I have a few questions I would like to ask you. You made reference several times in general terms to the question of meeting what had been called the deficiency requirements of the Canadian Western system. You indicated that you were not particularly alarmed about the situation. What I would like to ask, Mr. Dixon, is whether you have any concrete proposal or any specific plan which you could illustrate by deliverability or some other kind of schedule as to how the anticipated deficiencies of this system could be met over the next three years?

A We would have to be going to fields with which we have no contracts. We are only asking for enough gas for our own purposes and we can be doing as we have been doing all along, assuming that we are going over to another field over which we have no control and getting gas, if that is what you want we can work that up.

(Go to page 2214)



A.Faison Dixon,  
Exam. by Dr. Govier

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- Q I think you have misinterpreted my question, Mr. Dixon. I just asked if you have any specific concrete plan whereby these deficiencies could be met, whether by you or anybody else, whereby they could be met?
- A We can draw up such a plan. We have worked on it in a general way, but that involves, which I always dislike even to consider, going to another field, and just taking the gas from them and using it for our own purposes.
- Q But, surely, Mr. Dixon, you appreciate the Board's position that we cannot consider as surplus gas, any gas that might be required to meet Provincial requirements?
- A Yes.
- Q Of course, it is for us to look at the picture and try to decide that issue, but it would make it easier for us to see a proposal for meeting the so-called deficiency requirements of the Province, and if you had a concrete, specific proposal, it would certainly be of interest and of value to the Board in trying to determine whether there was surplus gas in this area, in the area that you are talking about?
- A We have one, of course, in a generalized way, but just like all of the other applicants, it is not quite specific, it is not in a way quite specific, because we do not figure on the exact pipe line. We can give you one which, I think, will show that any supposed deficiencies of the Calgary system can easily be met by fields in the vicinity that are now in existence.
- Q The Board's original request was not for the design of a pipe line system, but rather for the development of an illustrative schedule which would show that such a thing





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was possible, not necessarily that that was the only way of doing it, but that there was a way, you recall that?

A Yes. I thought we had already done that in Exhibit 28, I think.

Q Well, I have been referring to Exhibit 28, Mr. Dixon, and I think that things have changed so much since then?

A We have, of course, taken gas in other amounts from different fields, which has changed it somewhat.

Q You are using different quantities and different fields, so that it has changed a good deal?

A What you would like is something on the order of Exhibit 28, is that what I understand?

Q Well, just a minute, now, Mr. Dixon. Exhibit 28 gives schedules which show how the requirements of your system were to have been met at that time. That is another matter which I also wanted to ask a question on. But Exhibit 28 does not show how the deficiency requirements of the Province could have been met?

A That combined with our former exhibit.

Q I think in an earlier exhibit you did make a reference to the meeting of the deficiency requirements, but it is not in 28, as I interpret 28.

MR. NOLAN: I am informed, sir, that it is in J-12.

DR. GOVIER: J-12?

MR. NOLAN: I would have to check that to make sure, because I have not that exhibit before me.

Q DR. GOVIER: But I am right, Mr. Dixon, that any plan proposed in J-12 or J-13, those earlier exhibits, would hardly be applicable to the present?

A Not exactly. The general over-all plan would be. We



A. Faison Dixon,  
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would have to shift it around to get the gas from different points. I thought you wanted me to work up a general scheme of pipe line system?

Q Oh, I do not think the Board have asked the applicants to design a Provincial pipe line system, as you know, but we have asked them to show how the Provincial requirements would be met, and we have suggested that a deliverability schedule would be a good way of doing that?

A We will try to do that.

Q Mr. Dixon, will you look at Exhibit 65 with me, please?

A Yes, sir.

Q Mr. Smith was asking some questions concerning the schematic diagram at the back of this exhibit, and I had one or two other questions to ask you, Mr. Dixon?

A Yes.

Q Perhaps we could just look at the part of the diagram near Pincher Creek for a moment?

A Yes.

Q Am I right that the figure of 165,000,000 cubic feet production is the peak-day delivery from Pincher Creek,

A On this diagram that is so. I believe in our contractual arrangement we have changed it.

Q Let me put my question another way. Isn't that the figure which you have assumed for the design of the pipe line as being the peak day?

A Yes, that was the figure.

Q There might be a little variation in the contracts?

A Yes.

Q But, in any case, it is a peak day?

A Yes, sir.





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Q And the other figures, where they appear near other fields, for example, 25,000,000 cubic feet production as it appears beneath the heading "Many Islands", is that also the peak day design figure?

A Yes, sir.

Q And I have added all those figures, Mr. Dixon, and I get 300 as the total, that is including the figures for Countess and Sunnynook, which you are going to revise, but that means that this system is designed for a peak-day delivery of 300, is that correct?

A That is how it stands, but with very little compression you could get a great deal more, or you could greatly change it.

Q Could be changed?

A Yes.

Q And you are going to take and revise the diagram which will show the corresponding figures for Dunmore and delete the figures for Countess and Sunnynook?

A Yes.

Q And all these refer to peak days and not to average days or annual withdrawals?

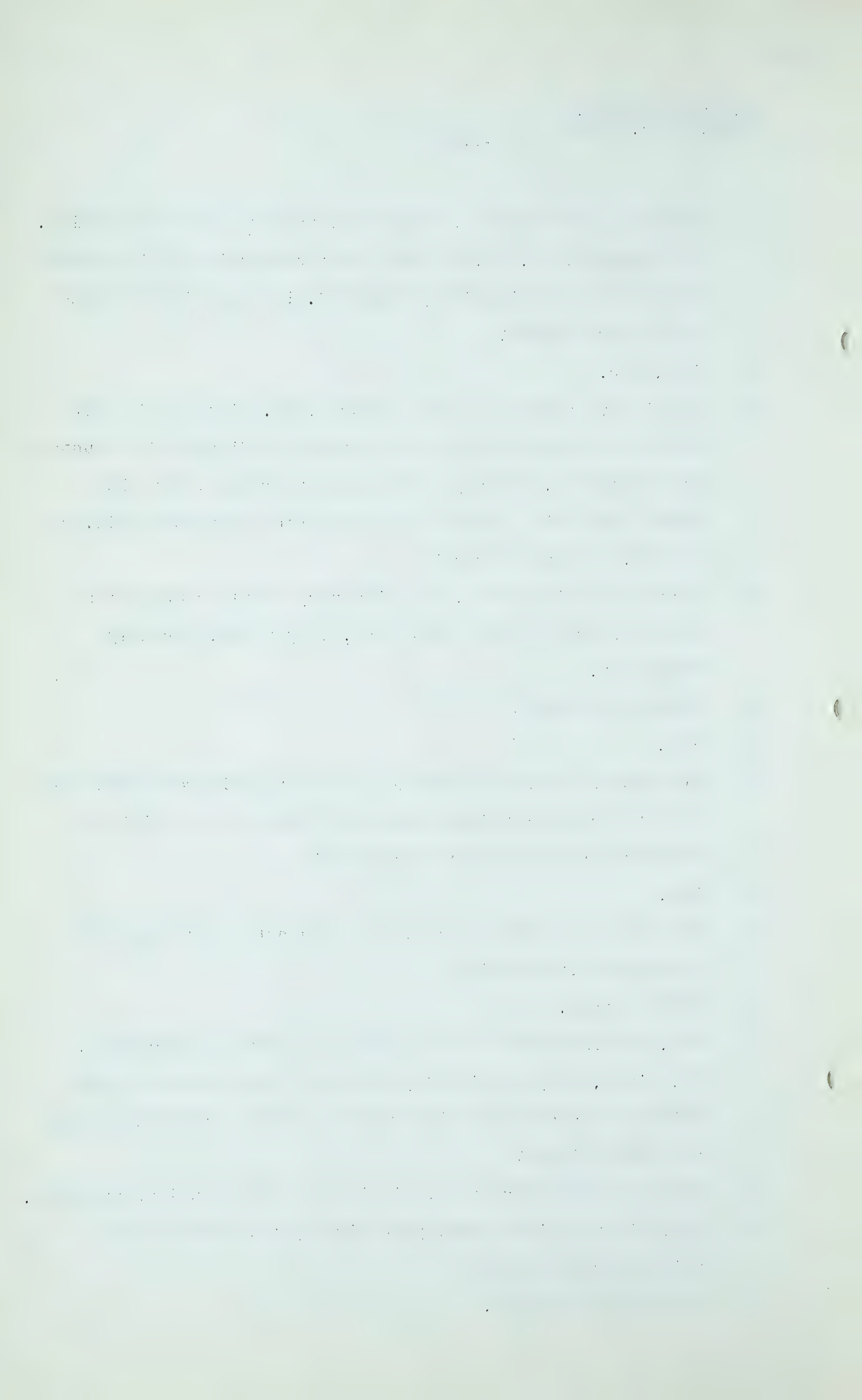
A That is true.

Q Now, getting back to the question of annual withdrawals, Mr. Dixon, do you initially show the total amount of gas which you propose to take from the Pincher Creek field and the other fields?

A It is in the contracts. It is in the contractual arrangement.

Q It is in the first year, your first year, second year, third year and so on?

A Yes, and thereafter.



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Q So that the way we will get that figure would be to total it up from the contract?

A Well, I could give them to you right now.

Q Have you the total available?

A 228 billion, approximately, from the. . .

Q 228 billion?

A Yes.

Q Yes?

A That is from the Britalta, and the California Standard contract.

Q I am sorry, I do not understand?

A They are taking 25 billion for 25 years.

Q Well, now, you see, you told me that this 25 . . .

MR.NOLAN: It is 25 million instead of 25 billion.

A Yes, 25 million per day for 25 years.

Q DR. GOVIER: Well, now, you told me that is 25 million per day, that that was the peak-day figure?

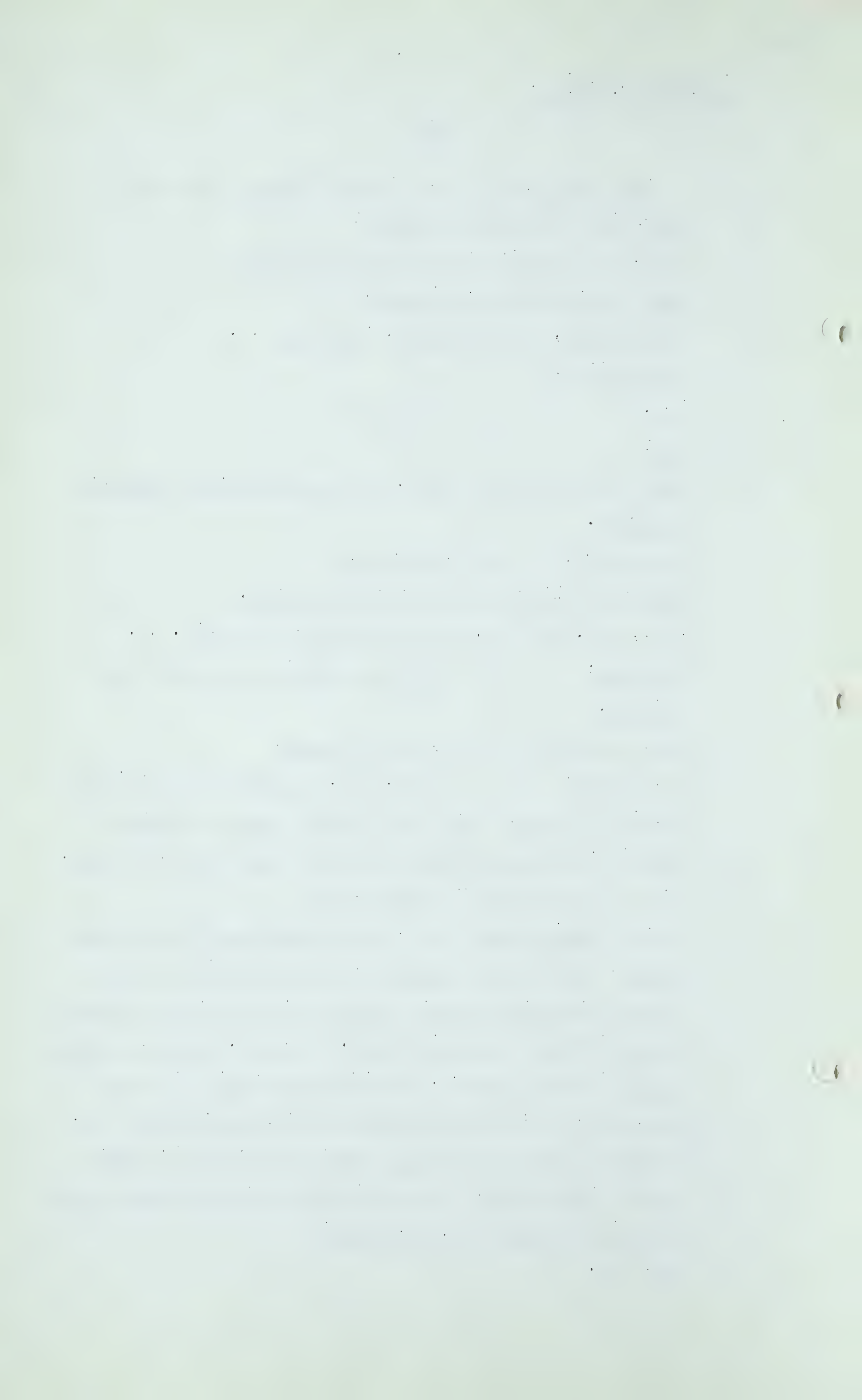
A That is the average after the third year for that field.

Q Are you talking about Many Islands?

A We are talking about both, Many Islands and the Princess fields. We have to change our deliverability on Many Islands and take out more gas from there than we contemplated in this schematic chart. You see, there is plenty of gas in Many Islands, but if we are taking it from Sunnynook, there just would not be any place to put it.

Q So that I had better forget about the schematic chart for the time being, and just think about the figures you are going to give me, Mr. Dixon?

A Yes, sir.





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Q And what is the total withdrawal from Many Islands on the basis of these figures?

A About 228 billion.

Q And for Princess-Patricia?

A And Dunmore, 228 billion.

Q That is Princess-Patricia combined with Dunmore aggregate 228?

A Yes, that is our contractual arrangement.

Q And Pincher Creek?

A I haven't that figure handy.

Q I guess it is not very difficult arithmetic from the contract, is it?

A No.

DR. GOVIER: Does Mr. Copp have that figure?

MR.COPP: 1.2 trillion, I believe.

Q DR. GOVIER: 1.2 trillion. Now, Mr.Dixon, have you a copy of Exhibit 28 with you?

A Yes, sir.

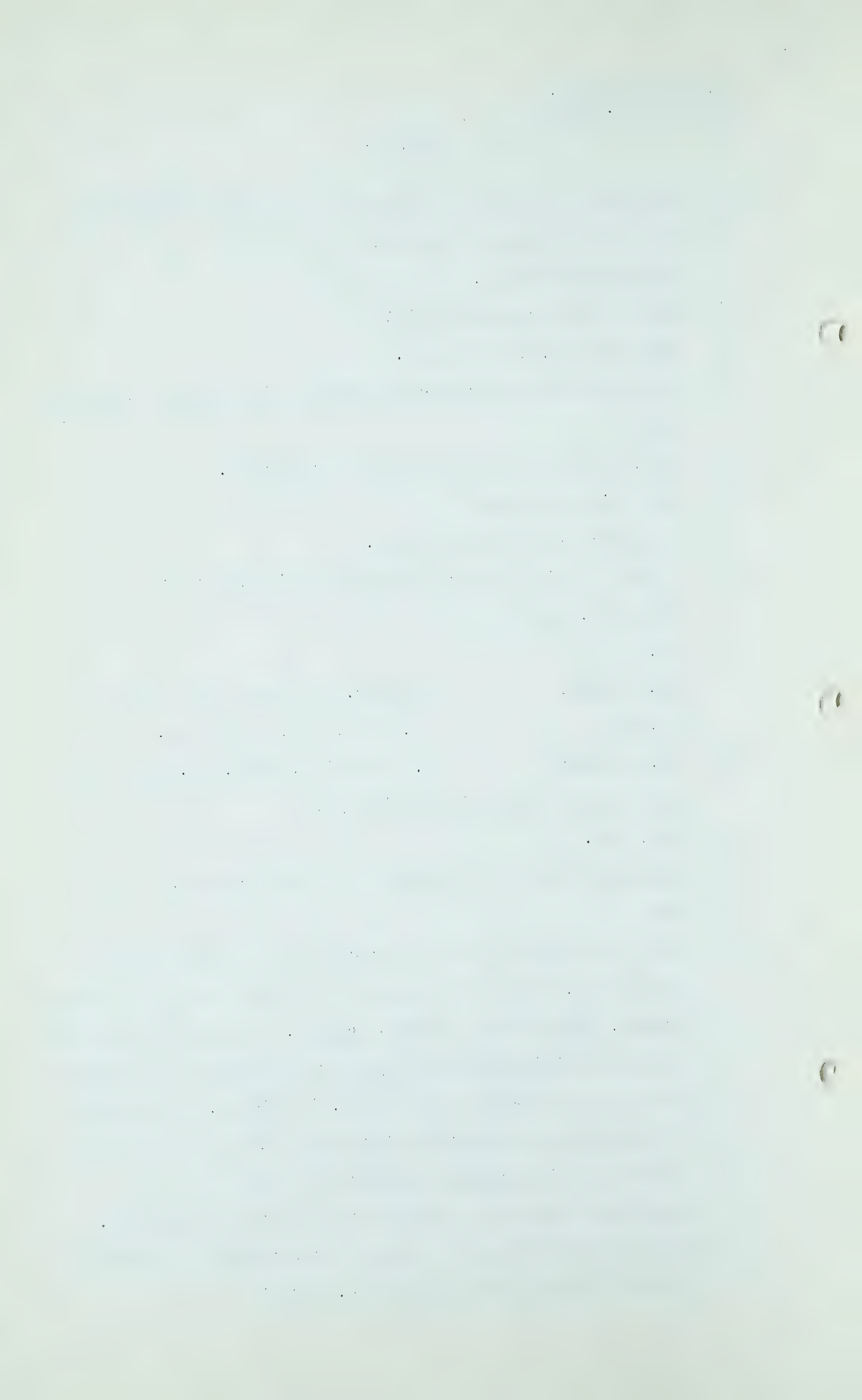
Q Would you refer to Schedule A of that Exhibit, please?

A Yes.

Q Will you tell me if my interpretation of this schedule is correct, that this schedule shows that for your previous scheme, not for your present ~~sc~~cheme, the annual withdrawal from each field from which you are proposing to withdraw gas over the 20-year period and, in effect, a breakdown of the entire withdrawal of gas from this Province, is that what this schedule purports to show?

A Yes, from different fields than are now contemplated.

Q Is it your intention to submit a substitute to Schedule A for the present arrangement, Mr. Dixon?



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A Yes, just exactly like this, and then another schedule.

Q I think that would be very helpful, Mr. Dixon?

A One exactly like that, and another showing the gas to supply the deficiencies, or supply the needs of Alberta in the southern part.

Q Well, let us continue just for a moment, Mr. Dixon?

A Yes.

Q This export schedule, Schedule A, is a modified Schedule A, which you intend to give us, will show in detail how the annual quantities are to be made up from the various fields?

A Yes.

Q Now, Schedule B of Exhibit 28 shows how, for your previous plan, the peak-day requirements were to be made up from the various fields?

A Yes.

Q Is it your intention to give us a modified Schedule B?

A If you wish.

Q For your present plan?

A Certainly.

Q And the remaining schedules in this Exhibit 28, Mr. Dixon, give the details for the individual fields?

A Yes.

Q Now, I assume that Schedule C, which refers to the Countess field, is no longer of interest to the export project?

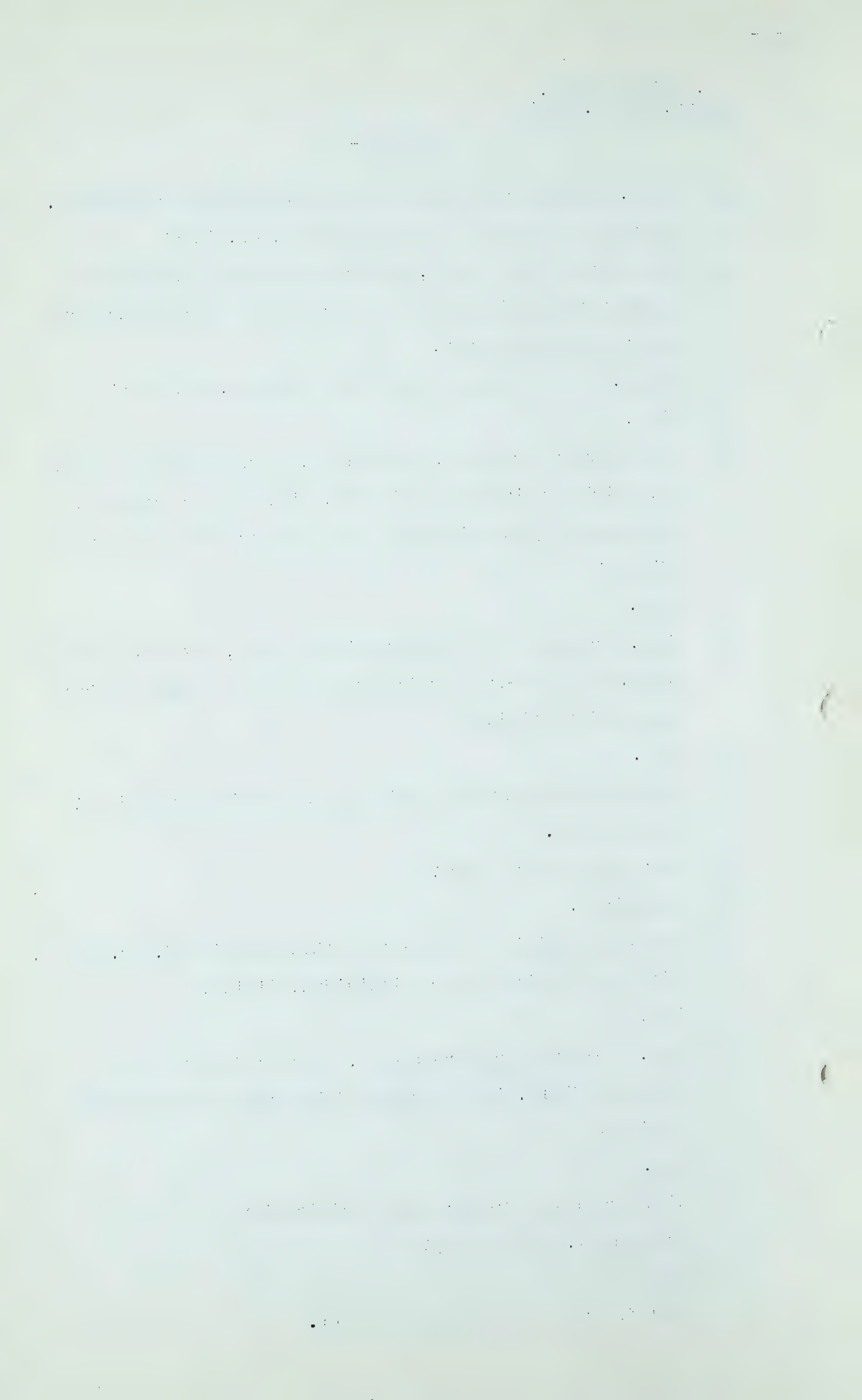
A Yes.

Q Will Schedule D require any modification?

A Schedule C, did you say?

Q Yes?

A That is one of the Countess field.





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Q Yes?

A That will require no modification.

Q I assume we are not interested with that right now?

A That is for the general requirements of the Province.

Q What about Schedule D, the Many Islands field?

A That will need modification, because we are taking different amounts from that field.

Q Yes?

A We will take a larger quantity of gas than is shown here.

Q Yes?

A You see, we have only taken a comparatively small amount of the gas in this schedule.

Q Yes. And you have the number of wells increased from 20, to begin with, to 75 in the 20th year?

A Yes. They expect to drill more wells than that.

Q Is it your intention to modify this Schedule D?

A Yes.

Q And Schedule E refers to Pincher Creek?

A Yes.

Q Is this applicable now?

A It is approximately so.

Q This shows the peak days of 189.8, which exceeds the 165 designed capacity of the line?

A It would have to be changed on both the average day and the peak day.

Q Yes?

A I believe it would have to be changed according to the contract.

Q To make it consistent?

A Not a very great change, but a change.



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Q But you would want it changed to make it consistent with with the contract and the pipe line design, is that it?

A Yes.

Q And Schedule F is the Princess Basal Alberta?

A Yes.

Q And Schedule G is the Princess Lower Basal Cretaceous?

A Yes.

Q Will they require alteration, Mr. Dixon?

A Yes, the California Standard. . . .

Q Pardon?

A The California Standard is working on some of those, and they expect to fulfil the contract.

Q And the Sunnynook field, which is in Schedule H, Schedules H and I, that will be only of interest, perhaps, in supplying local requirements, is that correct?

A Yes.

Q And Jumping Pound similarly?

A Yes, that is only local requirements.

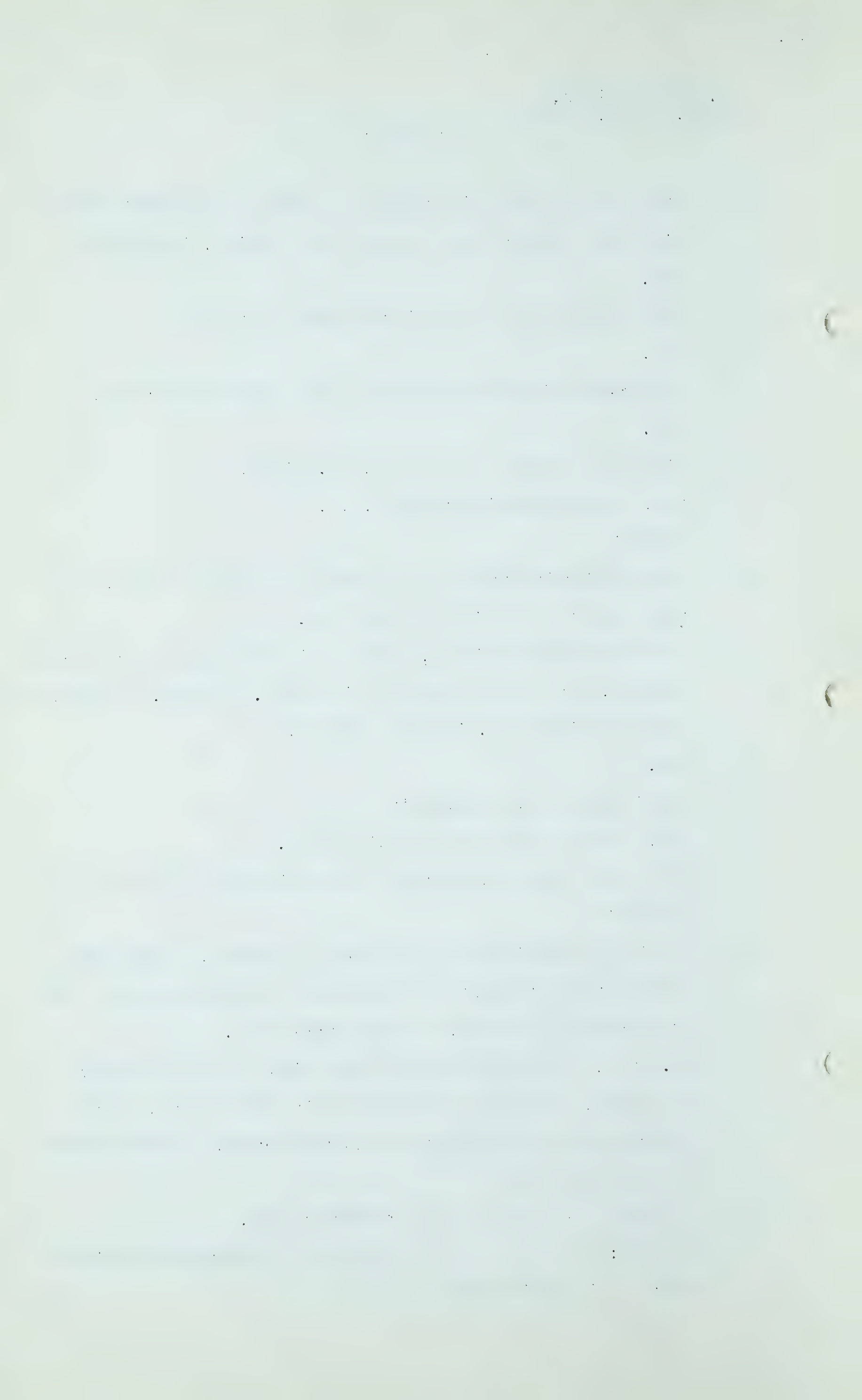
Q What about Dunmore, will you be submitting a schedule on Dunmore?

A We will be submitting a schedule on Dunmore. I have been advised that Standard of California are working on it, they are working on it now. We will supply one.

Q Mr. Dixon, you probably have these figures conveniently available, and perhaps you could give them to me. What reserve are you assuming for Pincher Creek, or what reserve of pipe line gas?

A I believe - I do not just remember that.

MR. COPP: The DeGolyer & MacNaughton estimate which is in Exhibit 28.





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Q DR. GOVIER: I believe the figure in Exhibit 28  
is a raw gas figure?

A For Pincher Creek raw gas of 2 trillion, 300 billion,  
and as used in this schedule of withdrawals, 1 trillion  
126 billion.

Q The withdrawal figure, I take it, is no longer applicable?

A No, that will be changed.

Q Is the reserve figure still applicable?

A Yes, sir.

Q Do you have the corresponding figure for marketable gas?

A We can work that out.

Q Yes?

A We would like to get that directly from the Gulf, who  
are making very careful studies on those.

Q Now, you said earlier, Mr. Dixon, that you were accepting  
the reserve estimate of DeGolyer & MacNaughton for the  
Pincher Creek field. Do you still take that position?

A Yes. I think we can either take that or the estimate  
made by Dr. Brokaw, or the one from Gulf. They are all  
fairly close.

Q Now, it is your choice, Mr. Dixon, which one do you want?

A Personally I like, I always liked the one made by the Company.  
I think the figures certified to by the Gulf Company, if  
they will give that, as to what they figure is the proper  
one, is more apt to be correct than any other.

Q Are you referring to the figures that were submitted at  
these Hearings by the Gulf Oil Company?

A I would rather get a new one, if they have a new one.

Q Yes?

A I do not know whether they have or not, but they have been



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doing a great deal of work since that time.

Q Will you tell us some time soon, Mr. Dixon, just what reserve you are assuming for Pincher Creek?

A Yes, sir.

Q And what about the other fields now? Princess and Patricia, what figure are you using there?

A I forget whether that was the figure that was used from DeGolyer & MacNaughton, or the figures that were worked up by Dr. Brokaw. I will have some new figures on that from California Standard, but I do not believe that they will be very much different.

Q Well?

A I do not think they will be very much different from those figures made by Dr. Brokaw or by DeGolyer & MacNaughton. I think Dr. Brokaw's are somewhat larger than these. Maybe we had better change back to him.

Q Well, I was just trying to find out which ones you want to use, Mr. Dixon. I have not any preference for any myself?

A You see, I did not write this exhibit.

Q No, I appreciate that. Dr. Brokaw put in this exhibit?

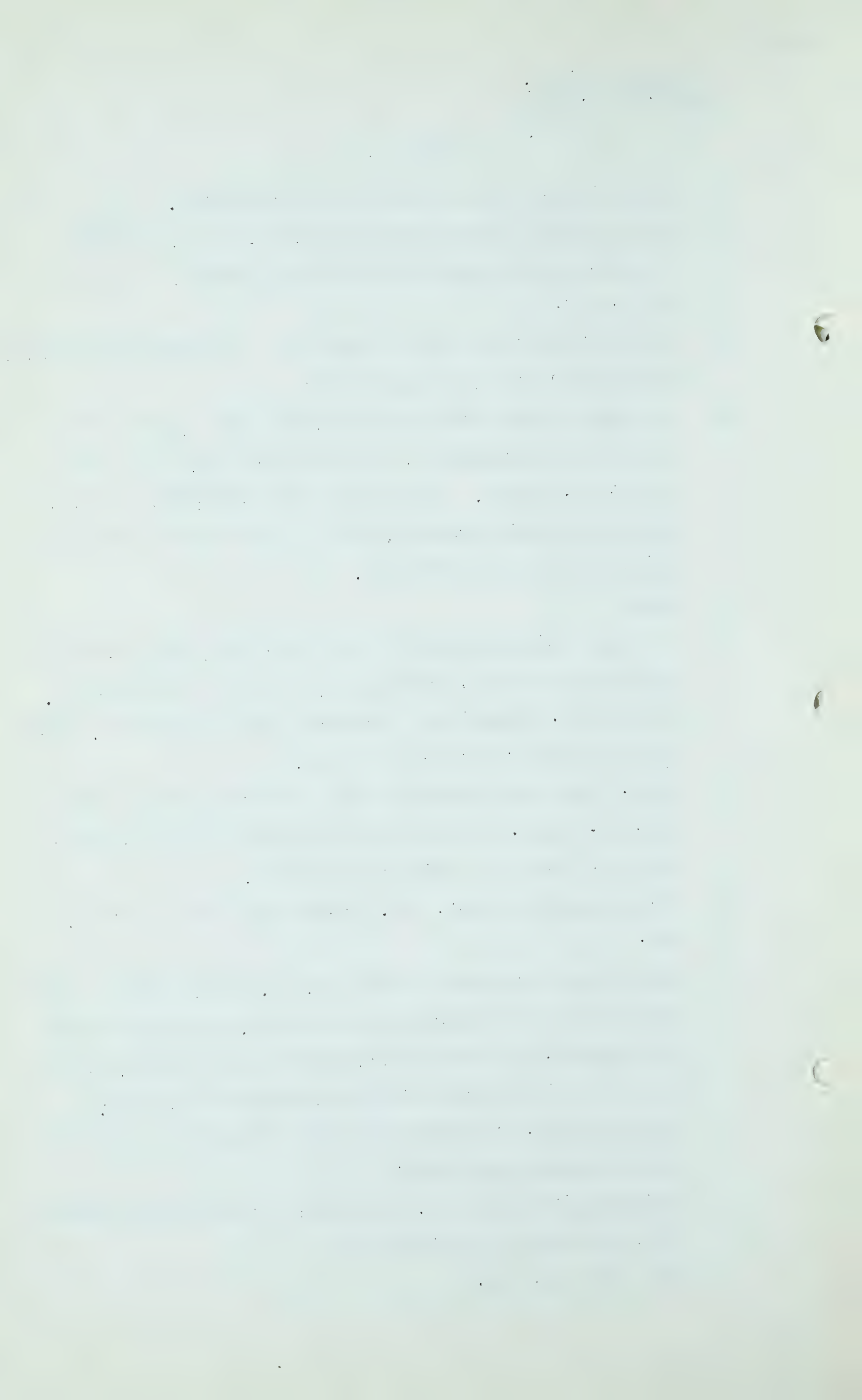
A Yes.

Q But perhaps I can put it this way, Mr.Dixon, that we would like to know what figures you are using, not only for raw gas reserves, but also for marketable gas reserves, from all of the fields from which you propose to take gas?

A Marketable gas, and the amount that we expect to take of the marketable gas reserve?

Q Presumably it would come, or would be given in the schedule that you would be working out?

A Yes, all right, sir.





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Q Mr.Dixon, looking again at the schematic diagram, at the back of Exhibit 65, I notice there are no towns shown in this area of the Province?

A Yes.

Q I assume that is just because they have not been plotted on, is that right?

A There are towns there, of course, but I believe they have natural gas now, or practically all.

Q What I want to ask you is this: Is it your plan with this system, as it is contemplated, immediately to serve any consumers immediately in the Province of Alberta?

A It is our plan to.

Q How many?

A I do not know. Any towns or villages along the route.

Q Have you any special communities in mind?

A No. I think all of them have gas. I think Brooks has gas, but that may be the only town of any size along the line that may not have.

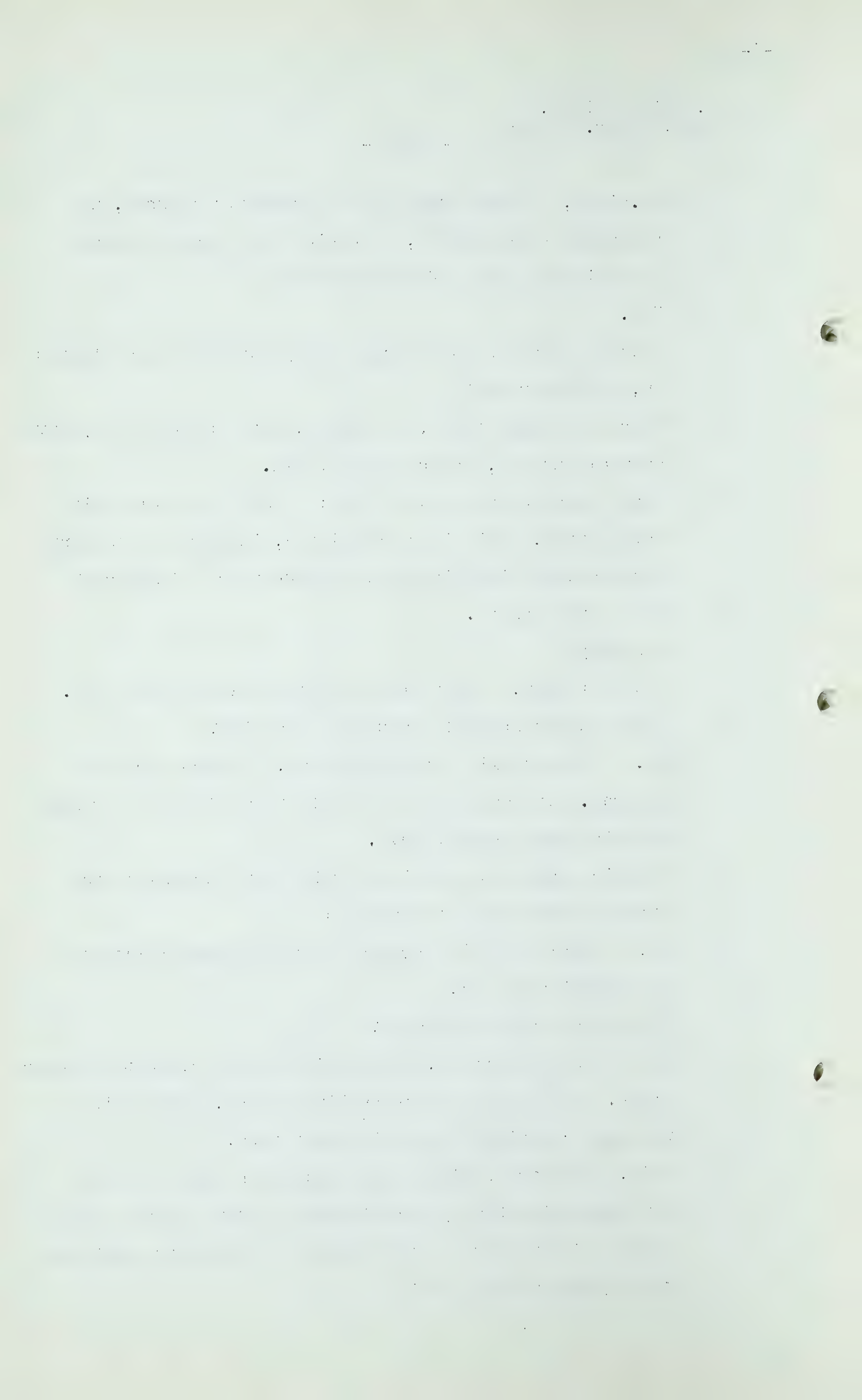
Q I notice that your previous grid system showed a gas supply to the Town of Cardston?

A Oh, I think we will serve the Town of Cardston without any question at all.

Q It does not appear on here?

A We have not put it on. That would be very close to Pincher Creek. One of our directors lives there, and I think we would certainly be serving that town.

Q Well, the Board would be very glad to receive from you any submission that you would like to give us as to the number of consumers in the Province of Alberta that your grid system would serve?



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A Yes, all right.

Q As to the localities and so on, Mr. Dixon?

A All right, we will give them to you.

Q I am just looking, still at Exhibit 65, Mr. Dixon, on pages 4 and 5, and I believe that you told us that this exhibit, referring to pages 3, 4 and 5 in particular, was to replace the corresponding material that was originally submitted in Exhibit 15, is that right?

A Yes, sir, that is right.

Q I notice in comparing the two, Mr. Dixon, that there are a number of items which were included in Exhibit 15 which are not included in Exhibit 65. Let me just read you the list I jotted down?

A Yes.

Q And I would like you to comment on why they were in one and why not in the other?

A Yes.

Q There are access roads, compressor stations, housing, operational tools, contractor's moves, desulphurization plant and dehydration plant?

A Yes.

Q Now, all those items appear in the original statement and do not appear in the amended statement?

A Well, some of them are not now needed, such as the desulphurization plant and the dehydration plant.

Q I see. Because you are contracting for clean gas?

A Yes, clean gas.

Q Yes?

A And we are contracting for gas at 750 pounds pressure, and it is up to the producer to keep it to that pressure,





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so that we do not have to have the compressors.

Q So that you do not need any compressors?

A Yes.

Q Yes?

A And the other items are just because - which are some, pardon me?

Q Well, access roads?

A That is involved in the cost of laying.

Q It seemed to be a complete deletion, Mr. Dixon, when I tried to compare the two. Do you have a copy of Exhibit 15 there?

A No, sir. The access roads, all of that was included in, for instance, on page 4, in the cost, the unit cost of construction.

Q THE CHAIRMAN: Under what heading, Mr. Dixon?

A Under "Installation". Also the contractor's profits which I believe we had in the other exhibit.

DR. GOVIER: I will just see if I can locate the pages I was referring to in Exhibit 15, and then pass the exhibit down to you for comment?

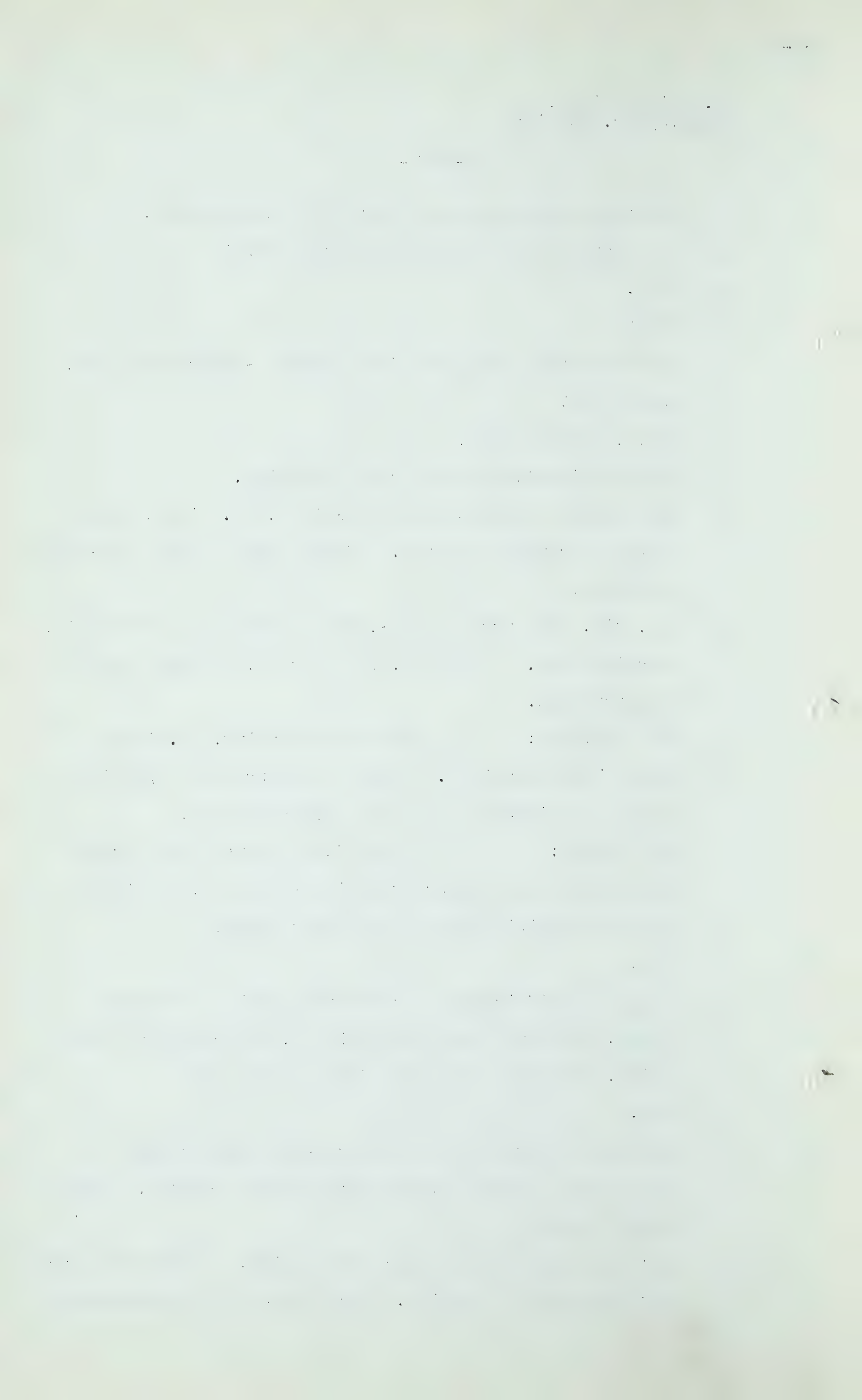
A Yes.

Q I see the difficulty in connection with the access roads. You had them in Exhibit 15, but the amount was "Nil", so that I guess you just left it out?

A Yes.

Q However, there are some others there with regard to which there was an actual dollar amount entered. What about housing?

A I do not think now we need any housing. This was a much more expensive operation. There was the desulphurization



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plant and the compressor plant. We have no compression to start with on this line. Of course, we may have to have it eventually, but we have made an extra large line, so that we could build it up to a much greater capacity very easily.

Q So that you think housing was required in the original plan, but probably not in the present?

A Other people will bear that cost.

Q Yes?

A The Gulf people will bear that cost, the main part of it.

Q What about, is it, operational tools?

MR. NOLAN: Item 12, Mr. Dixon.

A Well, that comes in Item 12, transportation, operating, and equipment. That is embodied in one lump sum.

Q DR. GOVIER: I see. You combine it in the one?

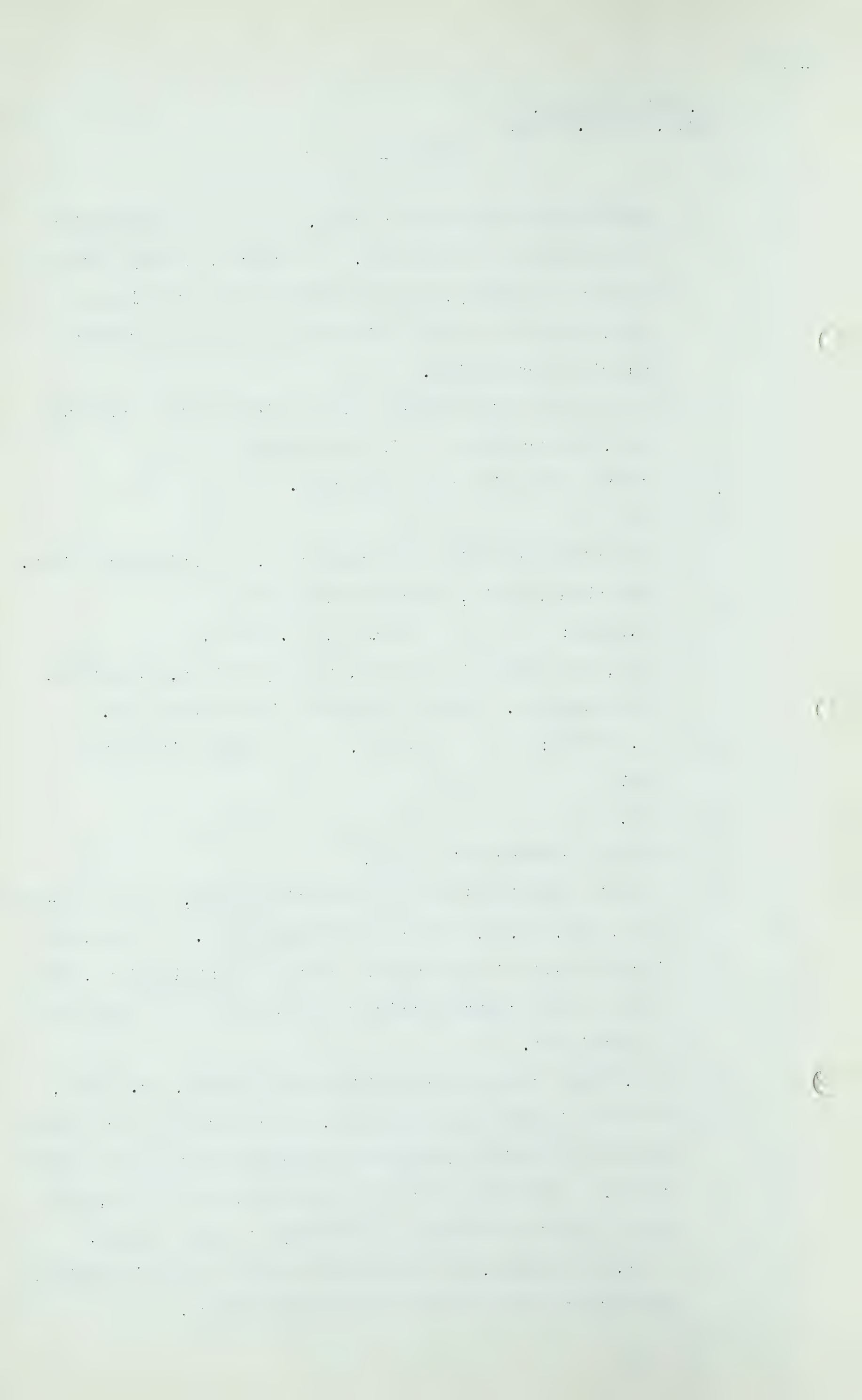
A Yes.

Q And the contractor's moves?

A That is embodied in the installation costs, for the 24-inch line, \$14,520.00, and that is taken at \$2.75 a foot, and includes all of the ordinary costs of installations. That would be the contract price we would give to a contractor to put it in.

Q Now, there was one other difference I noted, Mr. Dixon, and that is also in Exhibit 65. Contingencies are taken at 5% in Exhibit 65, whereas in Exhibit 15 they were taken at 10. I believe this point was mentioned before, but would you mind telling me again why it was changed?

A Well, we thought, that getting the 10% for contingencies, we thought that we did not need that figure.





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Q You feel certain that 5% is a sufficient amount?

A Excepting for the fluctuations in the price of steel.  
Of course, that is beyond all calculation.

Q Oh, there was one other thing in connection with this  
Exhibit 65, Mr. Dixon. The costs you deleted on pages  
3, 4 and 5, refer, I take it, to the pipe line system  
going to Countess and Sunnynook?

A Yes.

Q As originally contemplated?

A Yes, sir.

Q In this exhibit?

A Yes.

Q Will those costs require any significant modification  
in the light of the fact that you are not going to take  
gas from Countess and Sunnynook?

A That will be very simple. We cut out Sunnynook at  
\$1,350,000.00 and substitute the line from Countess to  
Brooks for a line from Dunmore up to the other line,  
and that would be all the modification in cost needed.  
It would be a slightly lesser cost.

Q Yes?

A And then we have left out building a line to Cardston,  
which I do not know should be considered as part of this  
grid system to gather or not, but I think you might  
put it in.

Q I do not suppose you have the new figures available  
right now, do you, so that we can amend this Table 1?

A Well, I think - I haven't got the costs with me with  
regard to the cost going to Cardston.

Q Perhaps you might give us those later, Mr. Dixon, or,  
at least, make some statement, so that we will be sure



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we are interpreting Table 1 properly?

A All right.

Q With respect to your most recent proposal?

A Yes, sir.

Q Would you look at Exhibit 66, Mr. Dixon?

A Yes, sir.

Q There is one thing I wonder if you could explain to the Board, how you arrive at the monthly demand and the commodity charge figures that appear on page 4, which you amend, I think, to \$3.03, that is the monthly demand?

A That is a case of bargaining.

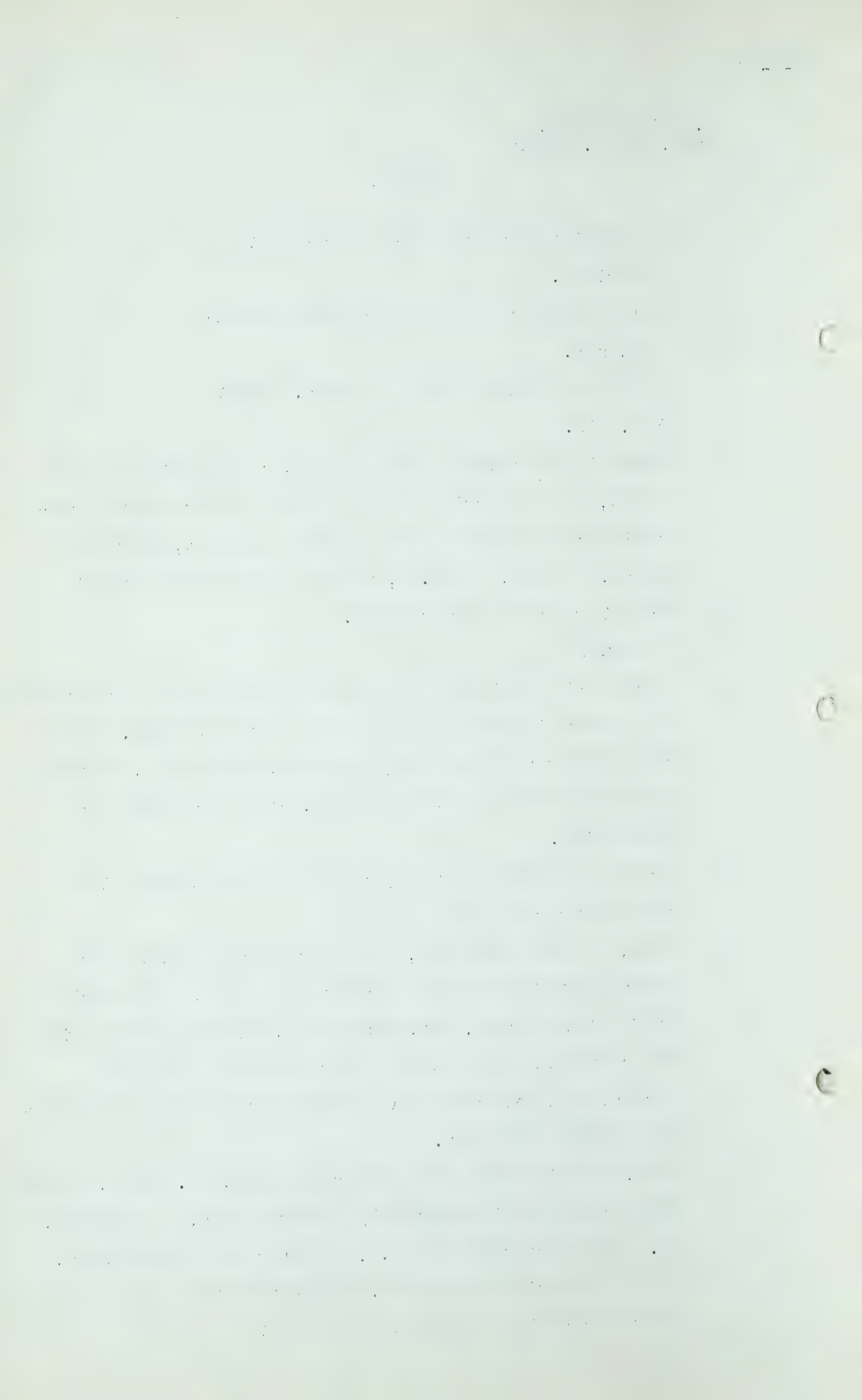
Q Is what?

A A case of negotiation between the distributors and ourselves, They were insisting that was all they could pay, and we were trying to insist they could pay a lot more, or they were saying they should pay less, and it was just pure bargaining.

Q Are those figures directly related to the average load factor of a pipe line?

A Well, in our arguments, which were very long, we were always figuring around a formula that would give a price at 70% load factor, but, apparently, when we came to sign the contract, they did not expect to have a 70% load factor, they expect to have a load factor that is considerably higher than that.

Q Well, that is what I was wondering about, Mr. Dixon, because this Schedule 1 is apparently predicated on, for example, 58.7 load factor for the B.C. Electric main land system, and we had evidence from Dr. Grauer the other day that he was anticipating a load factor of 70%?





A.Faison Dixon,  
Exam by Dr. Govier

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A Wherefore his price should be changed to 32.3 if he gets his 70%. At the time he gave his testimony the results showed a load factor of 58.67, but now he is thinking of putting in some additional equipment, and other methods, of shaving peak, and expects to bring it up to 70. That is the customary way of distributors to argue with the pipe line.

Q What I was wondering, Mr. Dixon, was if Dr. Grauer is going to increase his load factor, maybe other people will too, and maybe your total system load factor will be increased, and if it were increased, would the formula be changed?

A No.

Q The formula would remain the same?

A The formula would remain the same all the time.

Q Yes?

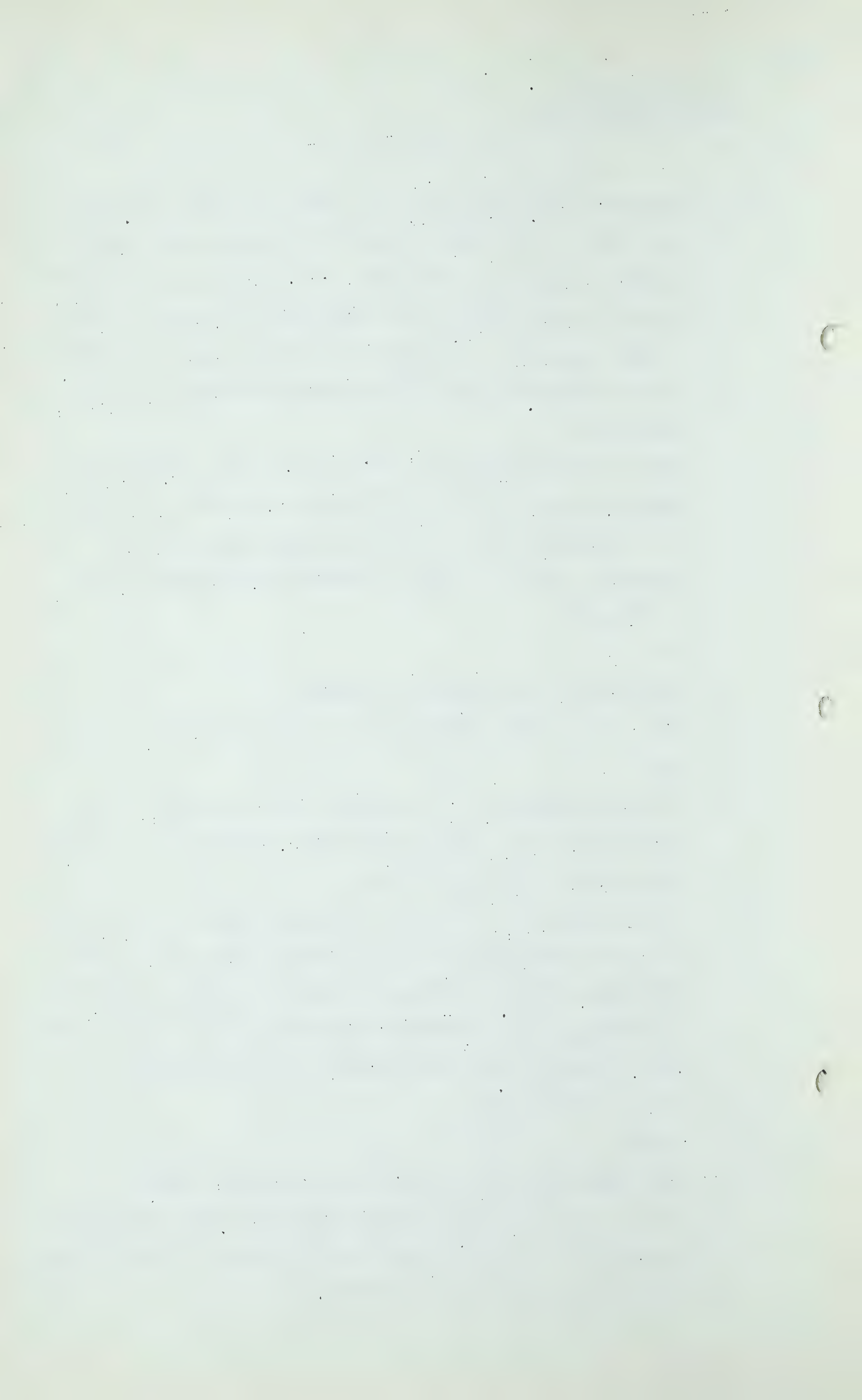
A It is advantageous for the pipe line to get less if it has gas and have a high load factor, because then you can get more gas through the line.

Q I appreciate that, but what I wondered was if the formula of \$3.03 demand plus 18 cents commodity was not in some way related to the average load factor which you expected to receive, and I, therefore, wondered if that load factor were changed whether the formula would be changed?

A Oh, no, not at all.

Q I see?

A Each person will do his best, up to certain limits, to pay as small an amount for the gas as he can, and that is advantageous all around, but we will keep the same formula for everybody over the entire system.



A. Faison Dixon,  
Exam.by Dr. Govier

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Q I am sorry to have to ask you to repeat this, Mr. Dixon, but I just do not understand it. Does that mean this, that if on the basis of a 70% pipe line load factor, you required a demand charge of \$3.03, to relate the demand against commodity in a reasonable way, does it mean that the system load factor, if it went up to 80%, that the demand charge would still be that high?

A The demand charge would still be \$3.03, but you are getting your gas a great deal cheaper. You see, if you figure it out, the demand charge is multiplied by 12 and divided by 365, the number of days in the year, and divided by the load factor, that equals the demand charge for a thousand.

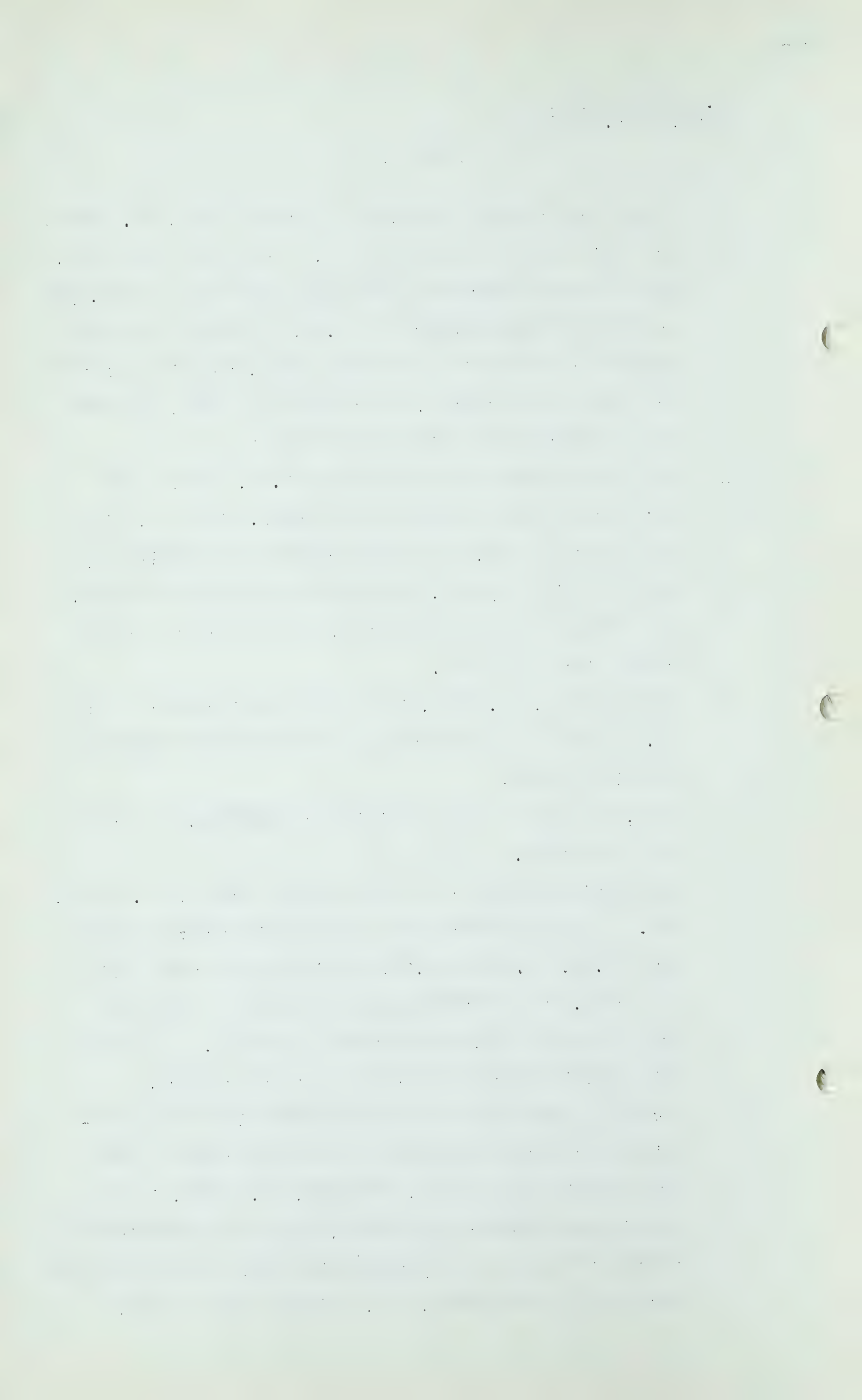
Q Incidentally, Mr. Dixon, is it just a coincidence that \$3.03 goes exactly ten times into the average number of days in a month?

A Well, that was a case of violent bargaining. We wanted more than that.

Q It certainly makes for a very simple formula, Mr. Dixon?

A Yes. It does not make but very little change between that \$3.03, \$3.05 and \$3.03, and it is less than 1/10 of a cent, but we wasted all this amount of time and pride on each side, not wanting to give in. I wanted this exhibit which was already in to be correct.

Q I can see that you must have an awful time when everything is changed at the last minute in trying to keep your exhibits up to date. Tell me, Mr. Dixon, if you were in the position of a Board, and were attempting to compare two pipe line systems going from the same general area to the same market, and, amongst other things,



A. Faison Dixon,  
Exam.by Dr.Govier

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you were interested in looking at the transmission cost, which would result from those two systems, would you think it important to know that about the same safety factor, or design capacity figures, had been used in each case, or would you not be concerned about that?

A You are speaking of it from the point of view of Alberta?

Q No, I was not.

A Yes.

Q I was speaking from the point of view of you being in the position of the Board trying to compare two pipe line systems which started in Alberta somewhere?

A Yes.

Q And go to the same market?

A Yes.

Q And neither one of them are built?

A Yes.

Q And we want to compare them beforehand?

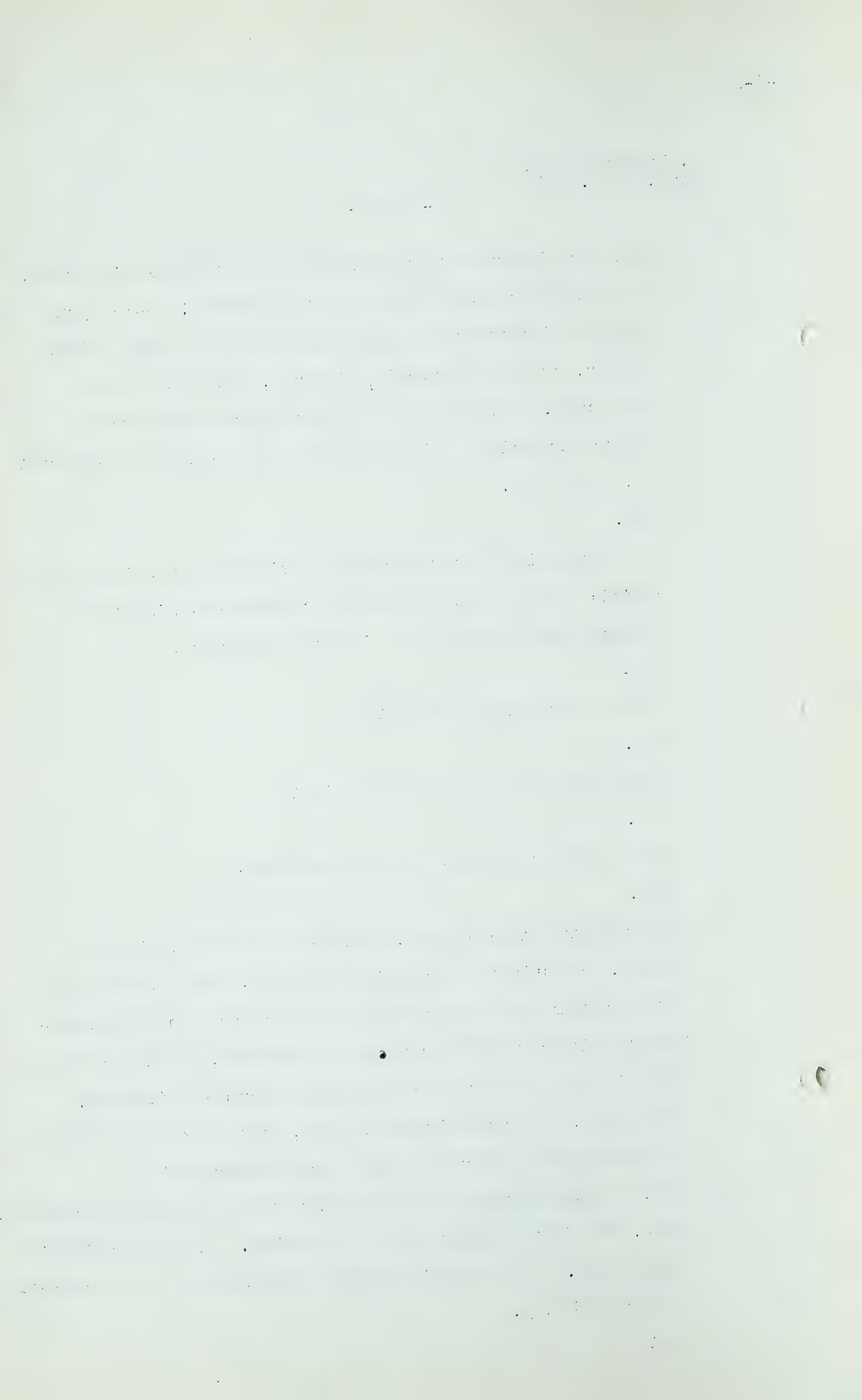
A Yes.

Q And amongst other things, we look at the transmission costs, or estimated transmission costs. And suppose you knew that in one case the installed compressor horsepower was 5% within the theoretical requirement, and in another case it was 25% more than the theoretical requirement, would you, for comparison purposes, want to reduce those to a common level before you made your comparison?

A Why, I would figure that the fellow that had 25% over requirement, was just showing poor engineering. I would bring it down to 5%. I am speaking of the requirement on the coincidental peak day.

Q Yes?





A. Faison Dixon,  
Exam. by Fr. Govier  
Cr. Ex. by Mr. C. E. Smith  
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A . Which was away above any requirement for it, considerably above, and I think that would be poor engineering. That is my own personal opinion.

Q If you personally were making this comparison, would you reduce both designs to a comparable basis and then compare the results?

A One way or the other.

Q One way or the other?

A Yes.

Q You would either take them both to a 5% or both to a 25%?

A Yes. I think so. I think that would be proper.

Q And would you do the same thing, Mr. Dixon, with respect to other items where there might be a difference in engineering judgment?

A I think so. They all could be compared on the same general basis.

Q Thanks very much.

.....

CROSS-EXAMINATION BY MR. C. E. SMITH:

Q One question, Mr. Dixon?

A Yes.

Q Would the 25 percenter likely get along better with the bankers than the 5 percenter?

A I do not think so. The banker likes to build a thing at as low a cost as practical to give good service.

Q I was just wondering whether the banker, looking at those things, would be likely to accept a 25% difference, or what I wondered was, would he be more inclined to put his money on the 25 percenter than he would on the



A. Faison Dixon,  
Cr. Ex. by Mr. C.E.Smith

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5 percenter?

A You are speaking of a safety factor in the way of the line blowing up, is that it?

Q I was just wondering if the bankers would be interested in that as well as the Board?

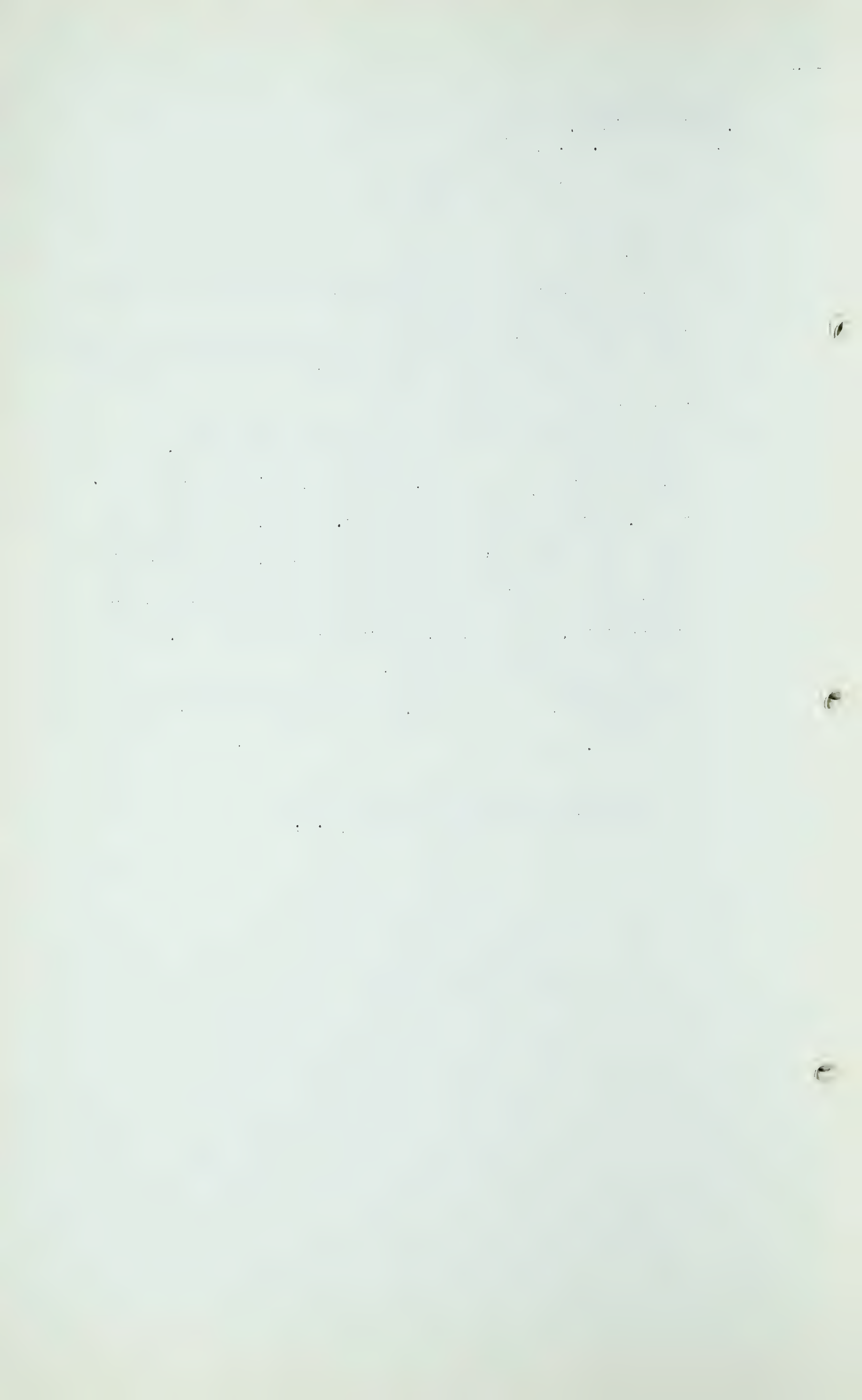
A I do not think the bankers would be interested.

MR.MAHAFFY: Mr. Chairman, arising out of Dr. Govier's questions of Mr. Dixon, I understand that additional exhibits will be filed, am I right in that, and am I right in assuming that we will have an opportunity, if we wish, of cross-examining Mr.Dixon on that additional material?

THE CHAIRMAN: Yes. We will now adjourn until 2 o'clock.

(Hearing adjourned until 2 P.M.)

(Go to page 2236)





A. Faison Dixon,  
Exam. by the Chairman.

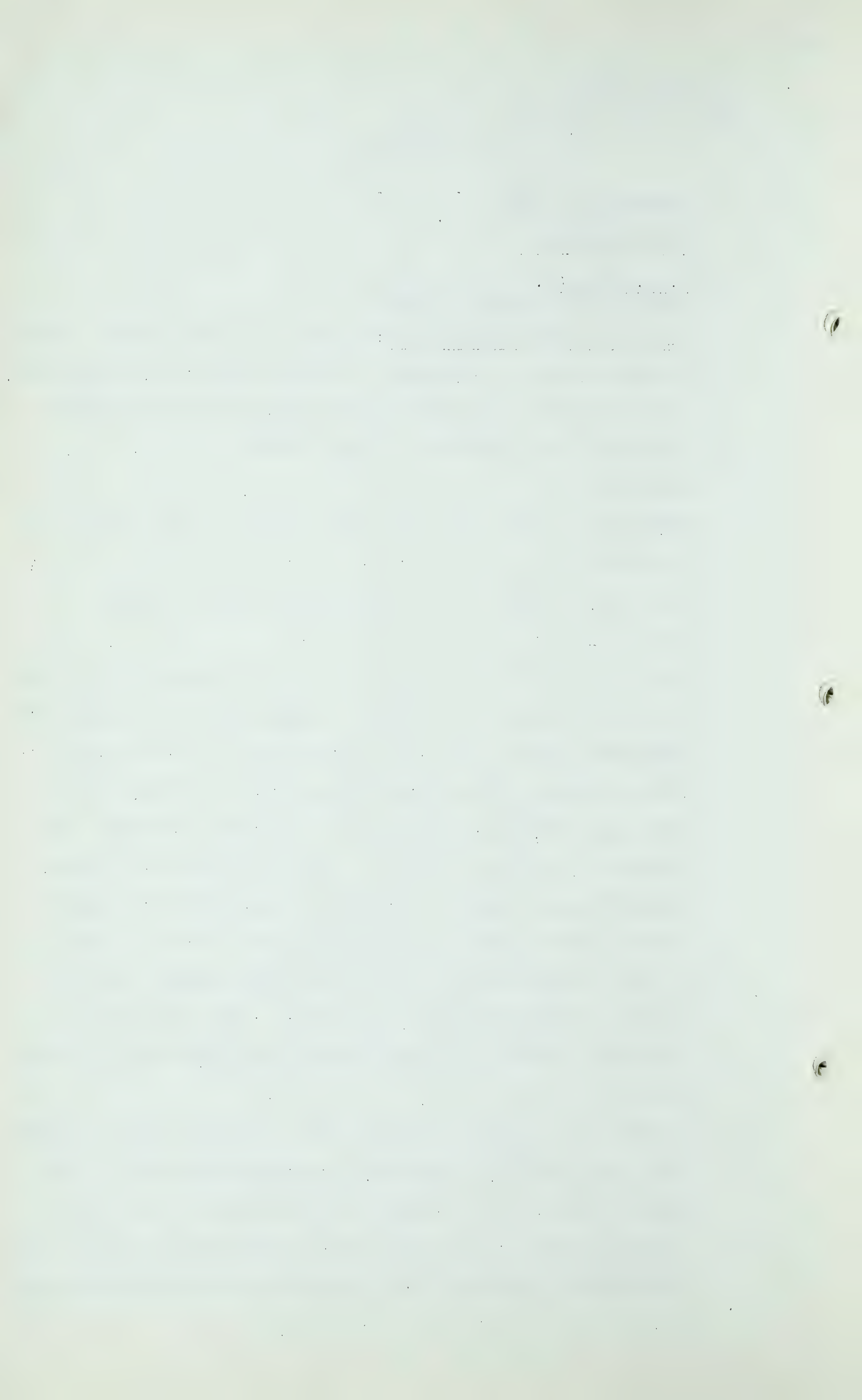
- 2236 -

November 22, 1951.

P. M. SESSION.

EXAMINATION BY THE CHAIRMAN:

- Q Mr. Dixon, this morning in answer to a question by Mr. Smith, I believe you told him that the reason the supply of gas was cut off to the Union Gas Company was because of the conditions of the contract. Is that right?
- A Yes, sir.
- Q Were you here when Mr. Weir gave evidence before the Board?
- A Mr. Weir?
- Q The Vice-President of the Union Natural Gas Company?
- A Yes.
- Q Well, I think that he gave a statement something like this to the Board, that the company in 1945 signed a contract with Panhandle Eastern Pipe Line Company for  $5\frac{1}{2}$  billion cubic feet annually, plus an additional 10% if the company could take it. Panhandle then applied to the Federal Power Commission for an export permit. First a Presidential permit was given and in 1946 the Federal Power Commission gave a permit that generally speaking gas could not be exported at any time when there was an unsatisfied demand from the Panhandle system of the United States. Now, would the conditions of the contract have made any difference in that case?
- A I think so. Now, of course, this is getting into very deep law, but according to all of the conversations that I have heard on the subject it was due to the conditions of the contract where this gas was gas that was surplus to the then contracts of the distributing company that the Panhandle had



A. Faison Dixon,  
Exam. by the Chairman.

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made, and the fact that those were unlimited demands they did not have a limitation such as we have here on the contracts with Portland and Seattle, which is a definite limit. We do not have to go above that in supplying them with gas.

Q You mean the contract Union Gas Company had with Panhandle was subject to meeting the requirements of other customers before them?

A Definitely.

Q The Federal Power Commission apparently limited this 5½ billion cubic feet to a deliverability between the first of April and the 31st of October in the year. In other words, it was off-peak gas?

A That was their contract, it was off-peak gas.

Q You think because of the conditions of the contract that is why they did not get the gas, and if they had had a firm contract the Federal Power Commission could not have interfered and prevented the gas going to Canada?

A I do not think it could. The Federal Power Commission, or some agency of the Government, when there was great demand for gas over and above what the pipe line could supply, allocated it first giving it to those with firm demand, and secondly to those that had some other type of contract, and I am not familiar with all the details, but I know what I was told was that it was a condition of the contract that had been made to force the Federal Power Commission to restrict that. It was not anything to do with export from the United States, it was due to the fact that they had a subordinate contract.

Q Wasn't it because there was other customers along the line





A. Faison Dixon,  
Exam. by the Chairman.

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that had to be served in the United States?

A That was because they had contracts and this was for surplus gas, the expectation being in the summertime there would be very large volumes of surplus gas, but the great industrial demand was such there was not this gas that everybody expected there would be.

Q That is all for that. Then the second contract that the Union Gas Company made, I believe it was made in March 1950 and this contract was for 13 billion 250 million cubic feet annually for a period of 20 years. Now, I understand that the Federal Power Commission refused to permit that export of gas after the contract had been entered into on what appeared to be a firm basis?

A That is when they built their new line. They were delivering and I think did deliver 5 billion that year, or something of that order.

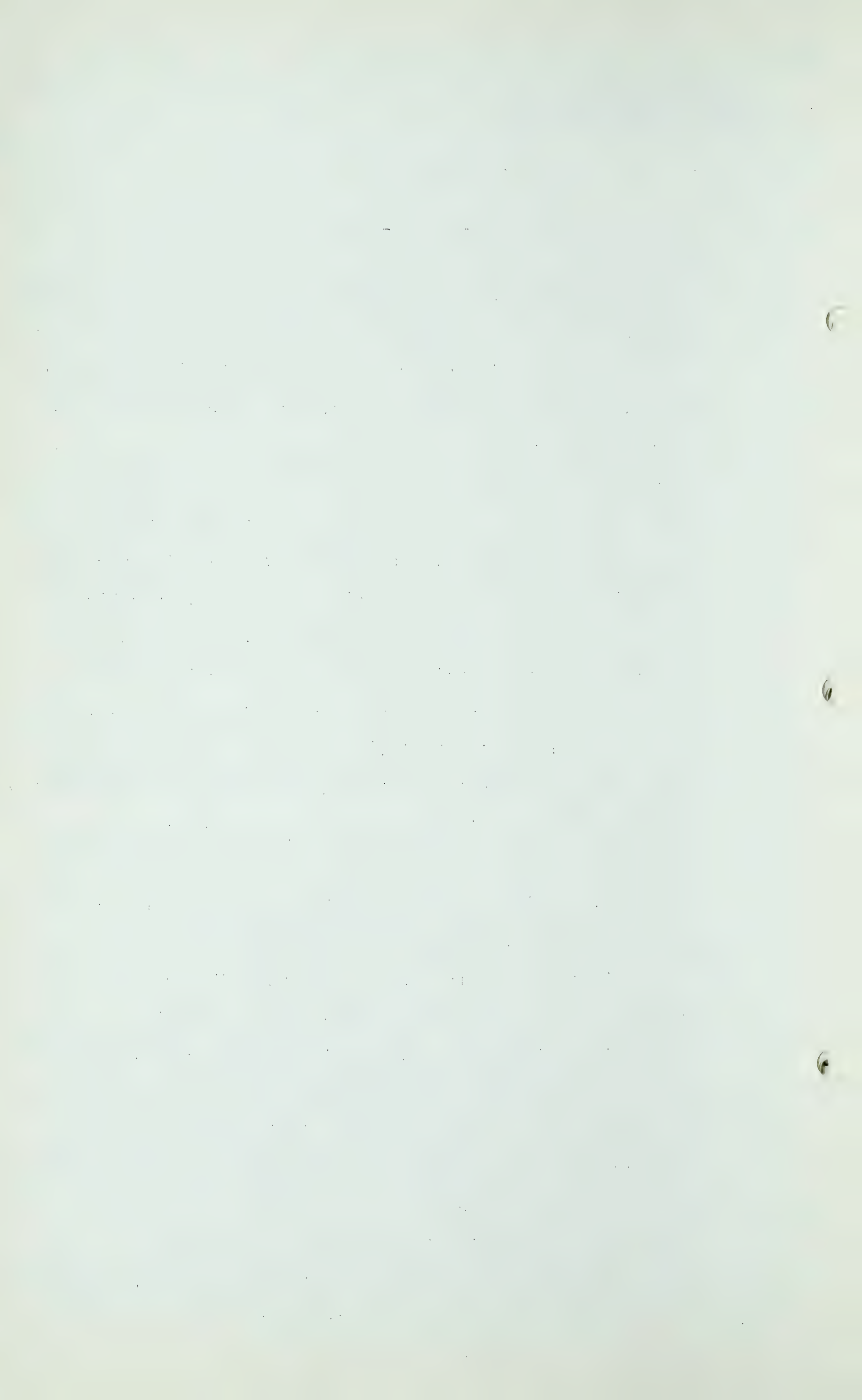
Q That was, I think on the old contract but they allowed no gas under the new contract at all.

A They said that the line already had been filled up to capacity with their former contracts and they did not have enough in their line to make additional contracts.

Q I understand the second contract was made at the suggestion of the Panhandle following them building either a new line or increasing the capacity of the original line, I do not know which, but apparently they had planned on increasing the capacity of their line and it was then they entered into this new contract with the Union Gas Company.

A They had planned on increasing it, their expectation being as soon as they got the steel to increase their line they





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will apply again and get these additional sales in Ontario.

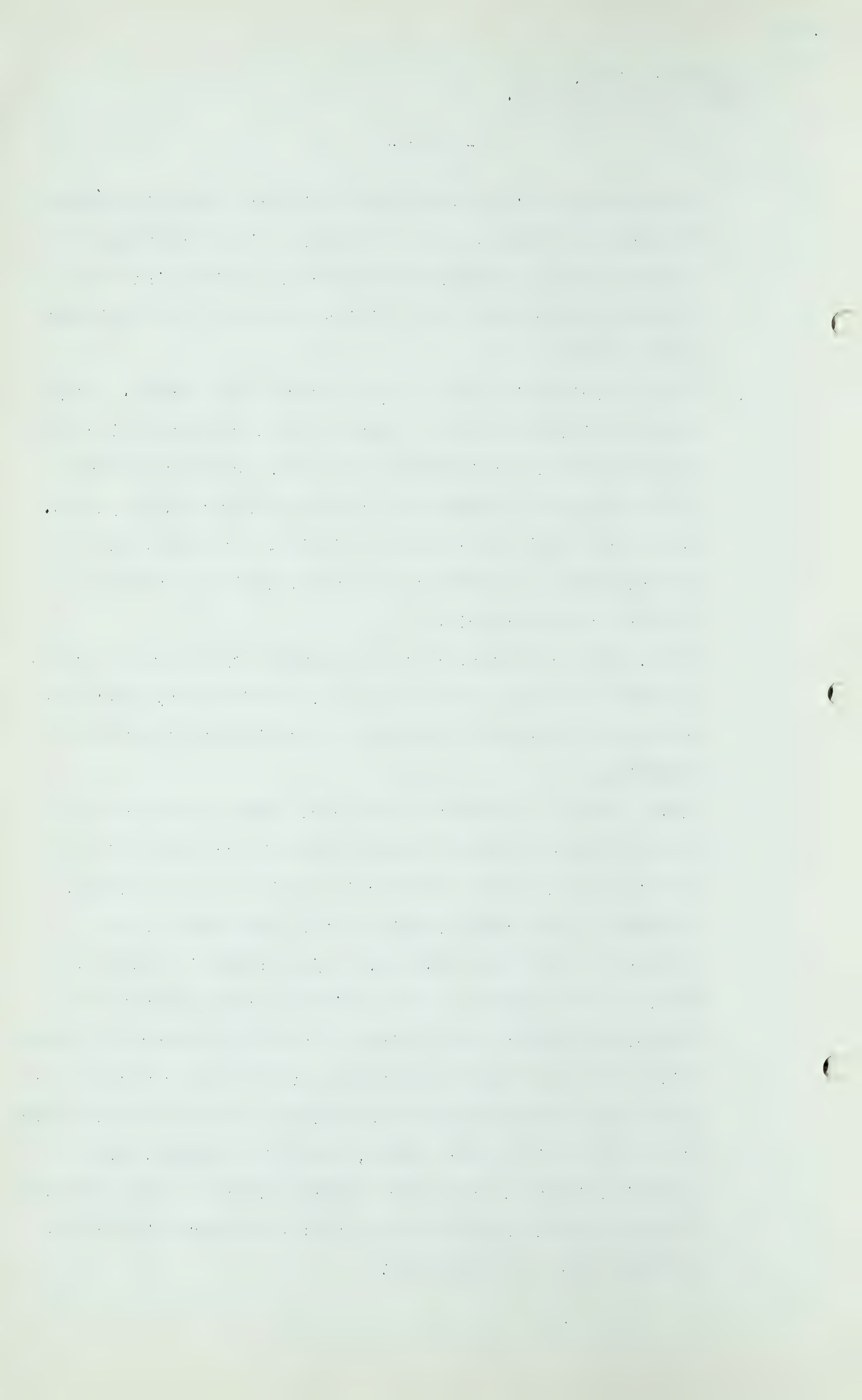
Q So that according to your information then that Panhandle company did not increase the capacity of that line after they had entered into the original contract for  $5\frac{1}{2}$  billion feet of gas . . .

A Not sufficient in order to get any gas into Canada. They may have increased it some but it was a very small increase. There is now a big increase going on by getting gas from south Texas and I think they are expecting to apply again, as it was dismissed without prejudice. When they had the gas available they expected to apply again in the hopes of selling gas in Ontario.

Q Well, now, Mr. Dixon, what legal machinery or process could be used to ensure that gas which leaves Canada by your proposed pipe line would eventually find its way to British Columbia.

A Well, Mr. Logan presented one method that he thought would ensure that of having contracts made for the sale of the gas in Canada to be delivered in another part of Canada, the gas in fact being really in the possession of the company in the United States, it just being in transit. Now, he gave a brief on that which has been given to the Board, and then we are trying to make that stronger so there will be no question, by putting in all of the contracts for sale that they subordinate themselves to the Canadian demand.

Q It is your opinion, Mr. Dixon, that if a company, say a Canadian Company, has a firm contract with the United States company for the supply of gas, that the Federal Power Commission could not interfere?



A. Faison Dixon,  
Exam. by the Chairman.

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A That is my opinion.

Q That is your opinion. There is one other matter, Mr. Dixon, I would like to discuss with you. I believe you said today that the Federal Power Commission could fix the rates which you would sell gas to your customers at in the United States?

A Yes, sir.

Q In order to do that, they would then have to establish the value of that gas, the price of that gas at Kingsgate?

A Yes.

Q Then I presume that to establish the price that you would sell that gas at in the United States, they would take into consideration the cost of the construction of the line from Kingsgate to the point in the B.C. boundary where your line goes up to Vancouver, is that right?

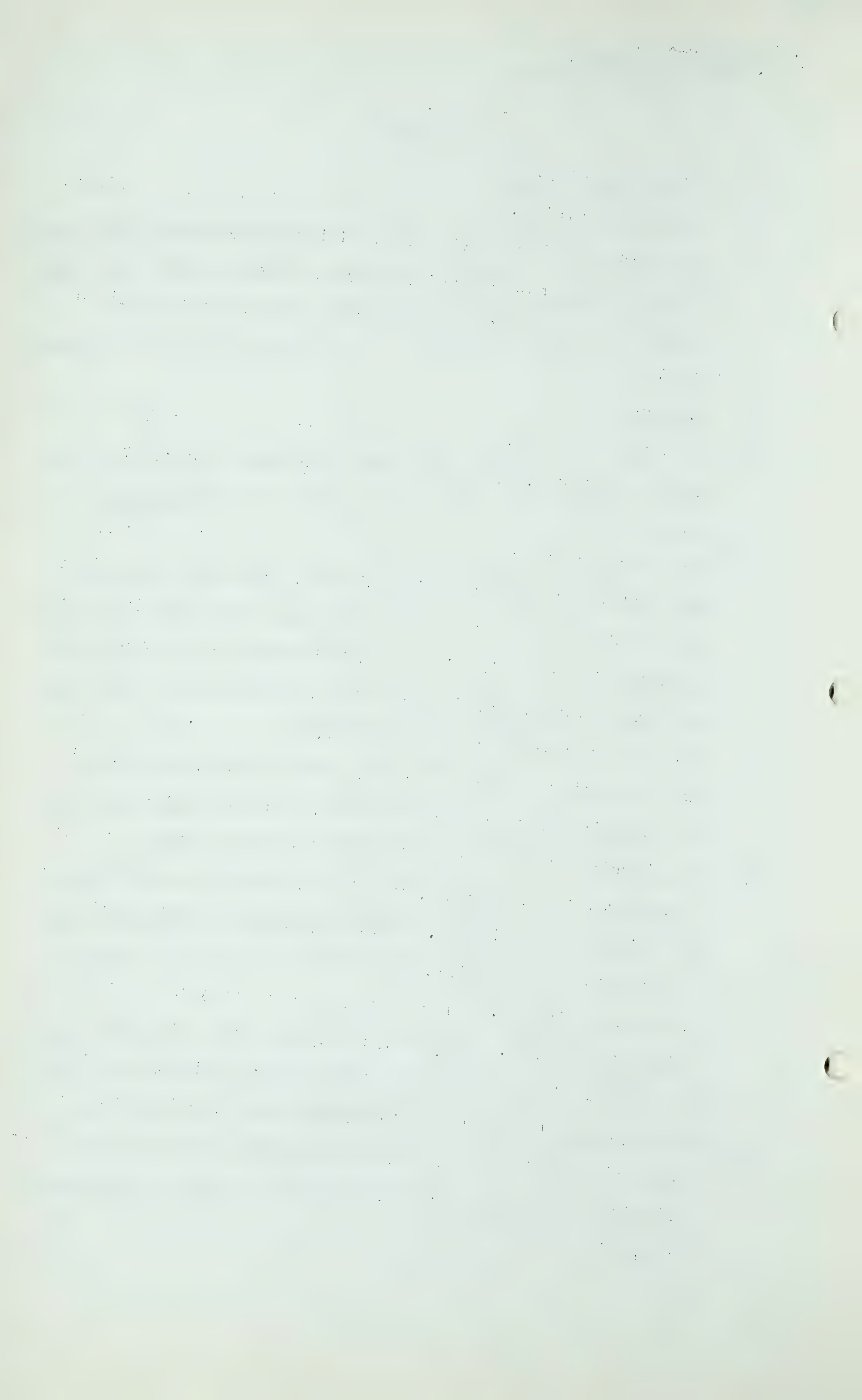
A I do not know whether they would want to go beyond their own boundaries or not, or whether they would just take that as something that was accomplished, I do not know.

Q Considering it from the point of view of the United States consumers, they, I think, would only have jurisdiction over the lines in the States. Could they include a line going up to Canada, do you think?

A I do not think so. I do not see where they would have any right to do that. They would only have to deduct or reject the gas as it comes out of Kingsgate, that is my opinion.

Q Then you would set the price at Kingsgate, which would be your field price here, plus the gathering costs, plus transmission costs to Kingsgate?

A Yes, sir.





A. Faison Dixon,  
Exam. by the Chairman.

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Q You would establish a price there, then you would take the cost of constructing a line in the United States and also establish a basic price, you might say, for gas or transmission of the gas being supplied in the United States?

A A basic price for the gas in the United States, yes.

Q Then when the gas then is sold in British Columbia, would they have to pay the price at Kingsgate plus the transmission costs in the States, plus an extra transmission cost in B.C.?

A I do not think that is the way our contract would be drawn. We would give the same price or figure the same price of the gas delivered, for example, in Vancouver and then we would subtract from that the cost of transporting the gas and have that as a separate charge, so it would come out in the end as just the same price in Vancouver, Trail, Spokane, Seattle and so on.

Q I do not just quite follow you there, Mr. Dixon. I mean, you would have a price from Pincher Station to Kingsgate, you would establish that price?

A Yes.

Q Then you would establish a price of transporting that gas through the United States?

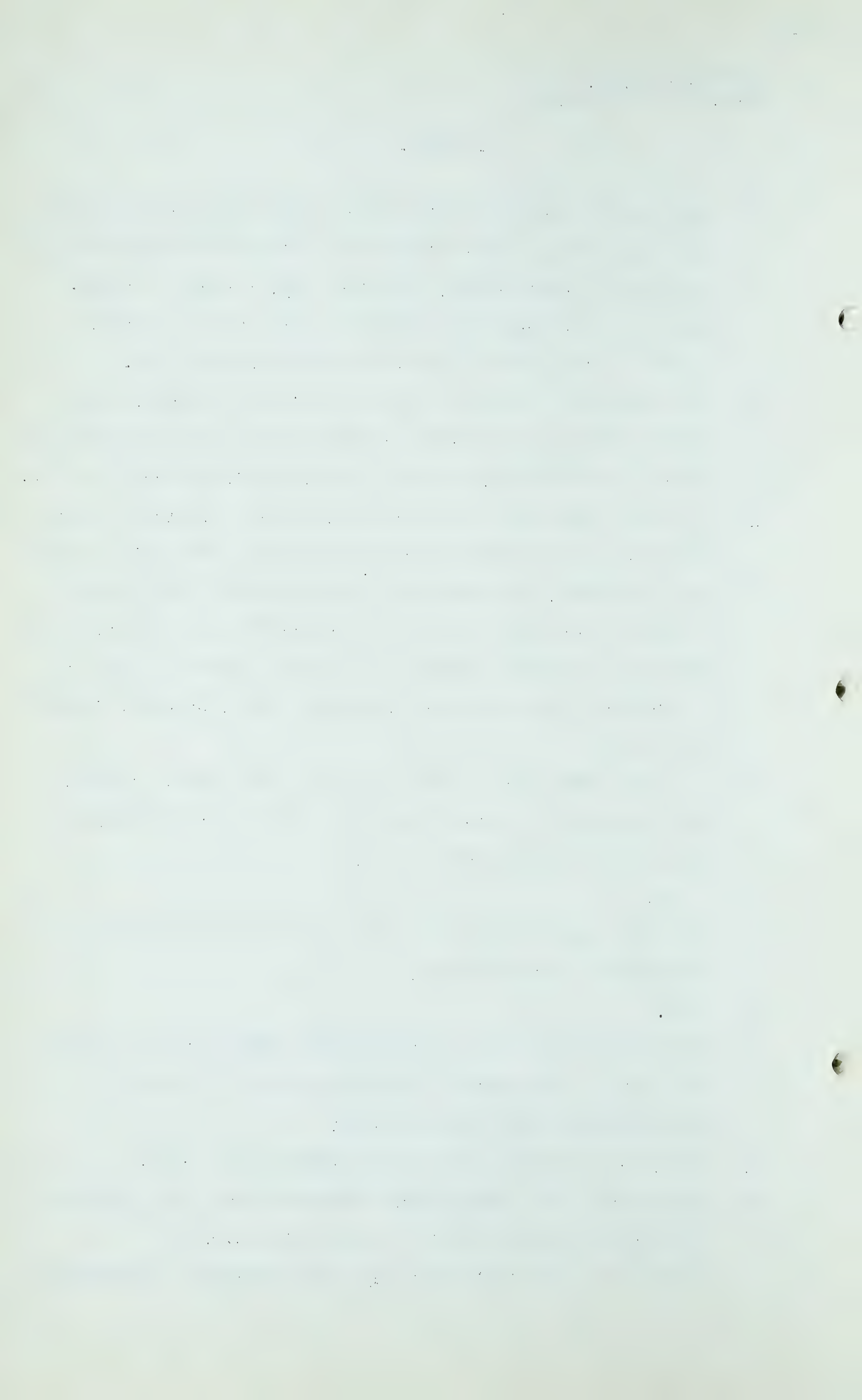
A Yes.

Q Then there would have to be another transmission cost from the point in the United States to British Columbia, to Vancouver and those other places?

A Or we could combine this in one transmission cost.

Q Assume that the federal Power Commission has set a price of X cents for transportation to the United States?

A They do not set it in that way to my knowledge. Ordinarily



A. Faison Dixon,  
Exam. by the Chairman.

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up to now I have never heard of setting a price for the transportation of gas. It is a price for the delivered gas, whether or not that is reasonable.

Q But the load factor would vary your costs or your price?

A Yes. Now, I was thinking of a way to try to have the cost of gas delivered to Vancouver always the same as delivered in Spokane, for instance, and I think we will have to work out a formula.

Q That is just what I would be interested in knowing.

A That is just what I do not know, all the legal works that will have to be worked to do that.

Q It is just possible that the U.S. Power Commission may fix transportation costs in the United States or might zone it. You gave evidence you expected the price would be the same as Spokane, Seattle, Portland. That is, the base price?

A Yes.

Q And that base price for transmission would be figured on the cost of the line in the United States?

A Yes.

Q Plus the cost that was arrived at at Kingsgate?

A Yes.

Q It seems to me the B.C. consumer would have to pay the transmission costs in addition from the B.C. boundary, that is if the Federal Power Commission are asked by somebody to fix those costs; otherwise, if you are going to equalize that rate the company would have to absorb the cost of transmitting from B.C. to the other points.

A That is what we expect to do, to make it come out even.

Q You here have established your basic price for gas at \$3.03



A. Faison Dixon,  
Exam. by the Chairman.

- 2243 -

for demand and 18 cents for commodity. Had you made any allowance in that for the additional cost of transporting the gas from the B.C.-Alberta boundary to Vancouver?

A No. That is just a price, any more than it will be to sell the gas at, or a scale of prices, really amounts to depending on load factors, nor do we make any computation in the cost of bringing the gas from a point near Spokane to a point near Portland. Of course, there will be a great deal more cost of transportation to bring the gas to Portland than to Spokane but Spokane and Portland will pay the same price.

Q Your cost is arrived at by taking the total construction cost of the main transmission line from Pincher Station to Vancouver or the terminal in British Columbia?

A Plus the gathering costs.

Q But there is a possibility that the United States or the Federal Power Commission will set a transmission cost for the gas transported to the United States of which the portion going to Vancouver would have to pay its equal share. When they calculate they would calculate on the future of the line.

A They would calculate on the over-all earnings of the line, on that principle.

Q In the United States?

A In the United States, and the cost of transporting this amount of gas from one point to another would be part of that over-all cost.

Q In other words, they would not let you, or at least I do not think they would let you, take into consideration the cost from the B.C. boundary to the towns you supply in British Columbia?





A. Faison Dixon,  
Exam. by the Chairman.

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A I think they would. I do not see why not. This is a project on which we are trying to work on a postage stamp principle of no matter where it goes it is the same cost, and if they were allowing that in the United States, why shouldn't they allow it when it is partly in the States and partly out of the States?

Q That is what I was wondering, because you said this morning when the Federal Power Commission set the rates for gas in the United States, you would then have to establish a value for that gas at Kingsgate?

A Yes.

Q Now, wouldn't there have to be another value established for that gas at the boundary where your line cuts back into British Columbia to supply the B.C. market?

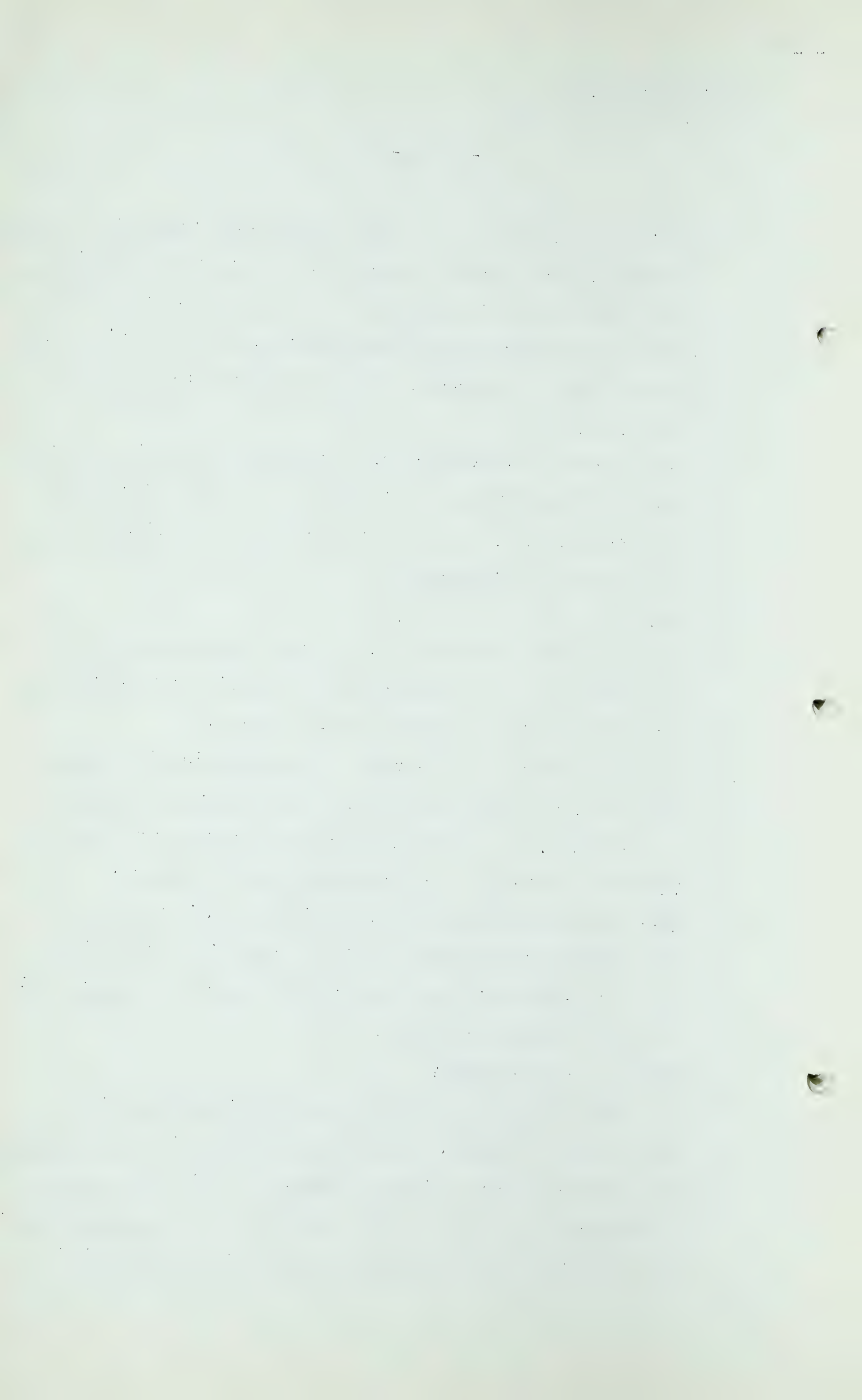
A There would have to be a value of transporting it between those two, and that would be added to the cost of the gas at Kingsgate, then there would be your costs from there to Vancouver, which is a comparatively short distance.

Q What I am really getting at, Mr. Dixon, is, is any of the gas consumed in the States going to bear its share of the cost of transporting gas from the B.C. border to Vancouver?

A Yes, that will be our idea.

Q How will that be done?

A By fixing the same price all over. I think that can be very easily arranged, or we can have the cost of transporting the gas from Pincher Creek to Kingsgate, plus the cost of transporting it south from the little piece in southern B.C. and call that the transportation cost and then charge an



A. Faison Dixon,  
Exam. by the Chairman.

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amount to bring it through the States and make it all come out exactly equal with the prices that we have published for the States.

Q In other words, then, your company would be prepared to absorb any additional charges from the B.C. border to Vancouver in the event the Federal Power Commission established the transportation costs based on the costs of constructing the United States portion of the line only for transporting the gas only in the United States?

A Naturally that is our expectation.

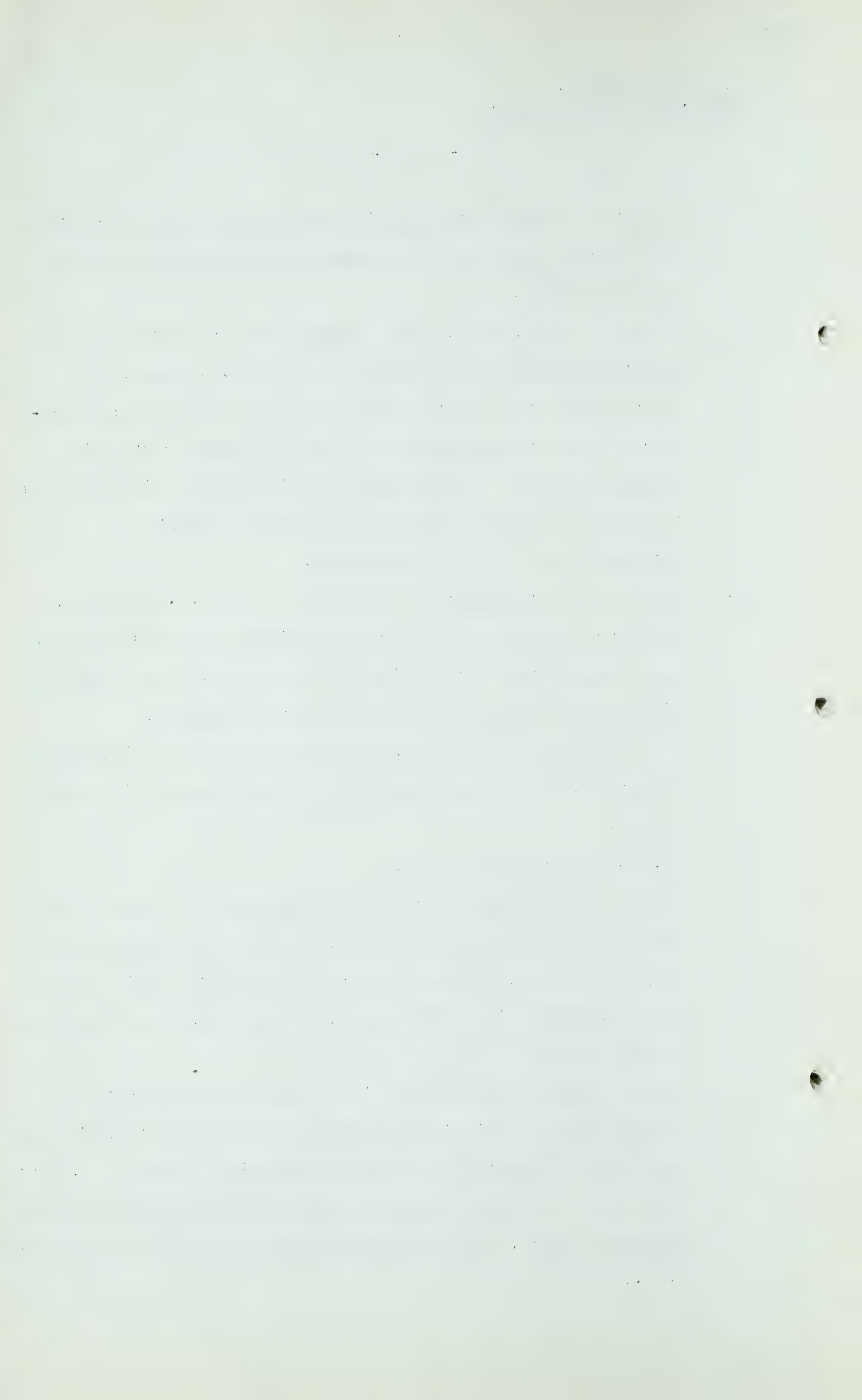
Q So the most the Canadian consumer, or the B.C. consumer, would pay would be the price established at Kingsgate plus the transportation cost fixed by the Federal Power Commission for transporting that gas in the States?

A We do not want to make any promise we would be selling gas at Vancouver at a less price than we are selling it in the States.

Q No, but at an equal price?

A Sell it at the same price in Vancouver and at Trail. Now Trail could object that we should charge them less because they are nearer, but we could not bring it to Trail unless we are bringing it to Vancouver, whereas Trail and Vancouver should have the same price.

Q You will agree with me that if it should happen that the Federal Power Commission does set the price for transferring that gas through the United States portion of the line, that the cost to your customers in British Columbia would be the Kingsgate price, plus that cost of transportation through the U. S.?





A. Faison Dixon,  
Exam. by the Chairman.

- 2246 -

A Yes, that would be all right.

Q It would never exceed that?

A Wouldn't it be fair to have it that the cost will never be more than our cost in the States? That is the promise we have been making to Vancouver.

Q That is exactly what I am trying to get at. Isn't that the price that you would have to establish, that is, the Kingsgate price plus the cost of transmission of the gas through the United States?

A I think that comes out to the same thing. Certainly that is our expectation and we agreed to do that.

Q All right, thanks, Mr. Dixon. There is one other question I have. I believe yesterday, I think it was, that you stated that the line would be written off in 20 years or amortized over a period of 20 years, is that right?

A The debt would be paid in 20 years.

Q The debt? You were then referring to the outstanding bonds, were you?

A Yes, sir.

Q But not that the plant would be completely amortized?

A No, sir. That is a period of 30 years, but the debt will be paid off in 20 years.

Q Would you mind telling me how the debt retirement is planned?

A Well, I think Dr. Schoales can testify a great deal better on the banking features than I can.

Q I was just wondering how this figure was arrived at at the back here?

A I think we have some figures.

Q Yes, you have sinking fund payments beginning fifth year



A. Faison Dixon,  
Exam. by the Chairman.

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of operation, \$9,000,000.00, page 9 of exhibit 66?

A What page is that, sir?

Q On page 9 of exhibit 66 at the bottom of the page there. Could you give me the first year, second year, third year and fourth year right off, how you arrive at this figure of \$9,000,000.00?

A Now that will have to be testified to by Mr. Schoales, although I thought we had it in this. You want the sinking fund schedule?

Q Yes.

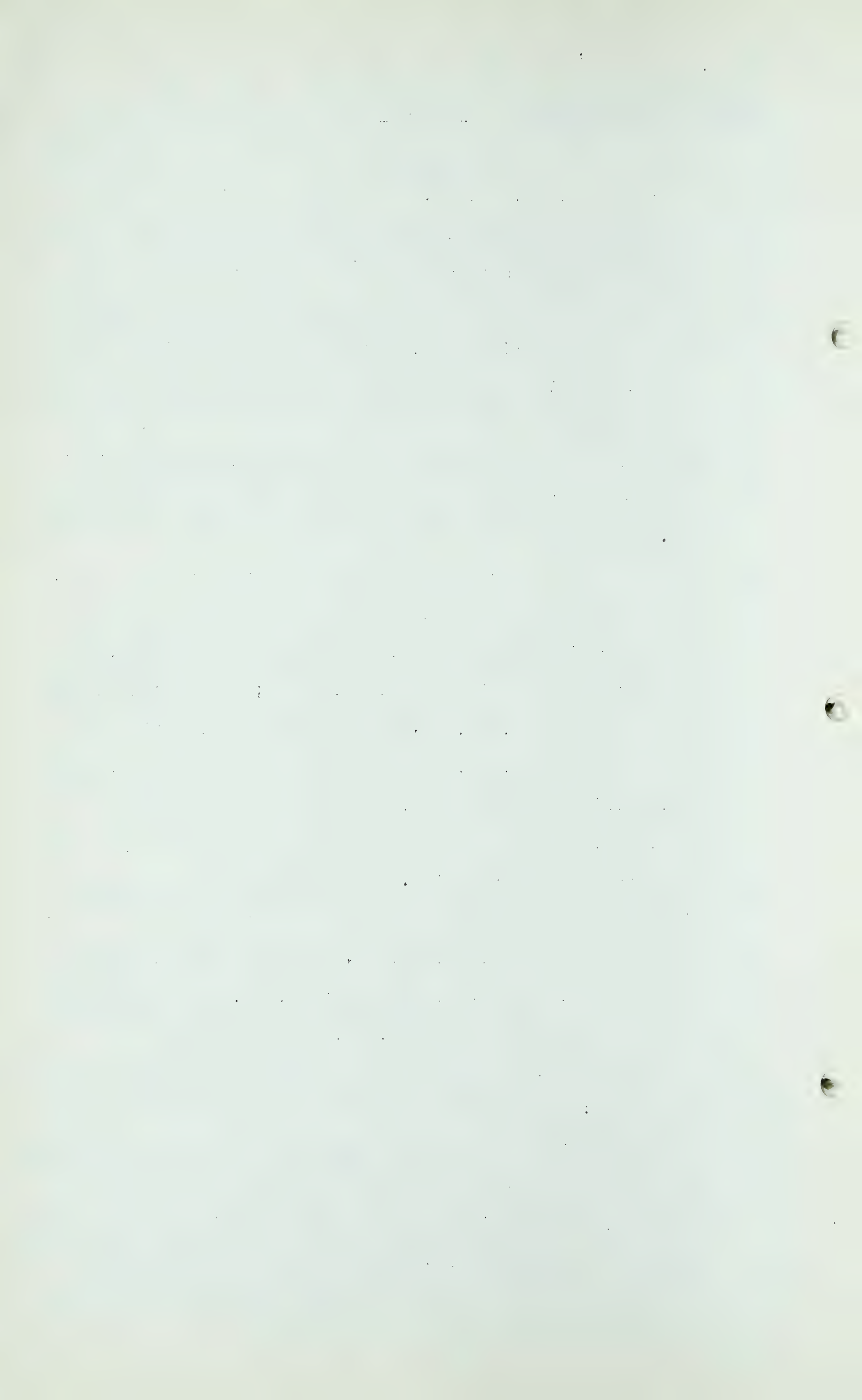
A Commence at the end of the third year after date of issue, approximately 26 months after the beginning of operations, and retire issue by maturity. Sinking fund schedule, third year after date of issue, \$2,000,000.00; fourth year after date of issue, \$3,000,000.00; fifth year to twentieth year at the rate of \$4,000,000.00. That is sixteen years, \$64,000,000.00, making \$69,000,000.00.

Q Well, now, this statement here says sinking fund payment at fifth year of operation.

A Sinking fund payment to beginning of fifth year, third year after date of issue, \$2,000,000.00; fourth year after date of issue, \$4,000,000.00, all of it \$9,000,000.00.

Q I thought you said before \$3,000,000.00 fourth year. That is all, thanks.

Q DR. GOVIER: Mr. Dixon, I had one other question. I notice that the contracts show that the gas is to be converted to a pressure base of 15.025 pounds per square inch absolute, and exhibit 65 in the schematic diagram refers to a pressure base of 14.73. I wondered if you would just



A. Faison Dixon,  
Exam. by Dr. Govier.  
D. N. Schoales,  
Dir. Ex. by Mr. Nolan.

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explain why those are different and why they are the figures that they are?

A Well, the pressure base in the sales, that is the bargaining figure, that you just buy that much gas. That has nothing to do with the calculations. That is not the ordinary pressure base that is used in making calculations in pipe line formulae. They vary from that very slightly.

Q There would be approximately a 2% volume difference?

A Yes.

Q Wouldn't there?

A I think a little less than 2, around that neighbourhood.

Q We are not to attach any particular significance to that difference, is that it?

A No, sir.

THE CHAIRMAN: Thanks.

MR. NOLAN: I will now call Mr. Schoales, if I may, Mr. Chairman.

.....

DUDLEY N. SCHOALES, having been first duly sworn, examined by Mr. Nolan, testified as follows:-

Q Mr. Schoales, you have not appeared before this Board before, have you?

A No, sir.

Q So perhaps you will tell us something then of your academic and professional background, please?

A I graduated from Cornell University in 1929, with a Mechanical Engineering degree. I entered the Investment Banking business after that and have been engaged in invest-





D. N. Schoales,  
Dir. Ex. by Mr. Nolan.

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ment banking from that period to the present, with the exception of four years in which I was in the United States Navy.

Q And what is your present position?

A I am now a partner of the firm of Morgan, Stanley & Company in New York.

Q What is the difference between an investment banker and an ordinary banker, Mr. Schoales?

A Well, that was a question I did not expect. An ordinary banker generally deals in commercial loans or generally short term duration. And when I speak about commercial bankers I refer to the ones I know best, those who are located in the United States. An investment banker is largely a person who is engaged in raising large sums of money for a long-term investment or equity securities, that is, ownership in corporations, and in generally building up those funds that are necessary for industry to continue to grow.

Q And Morgan, Stanley and Company indulge in that form of activity, do they?

A In the latter practice.

Q Have you examined the project of the Northwest Natural Gas Company?

A I have.

Q Have you read exhibit 66, which is entitled "The Estimate of Annual Revenue and Expenses"?

A I have.



N. D. Schoales,  
Dir. Ex. by Mr. Nolan

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Q Will you please tell the Board whether or not Morgan, Stanley and Company are willing to undertake the financing of this project?

A I followed the proceedings before this Board for two and a half years, have studied the evidence adduced by all of the parties before the Board, and have, of course, studied everything that has been put in by Morgan, Stanley and Company - I mean by Northwest Natural Gas. And Morgan, Stanley and Company has made various studies and evaluations and estimates, and as the result of all those, and the weighing of all of the evidence that I have seen adduced before this Board, Morgan, Stanley and Company is prepared to undertake the financing of Northwest Natural Gas project, as submitted to this Board.

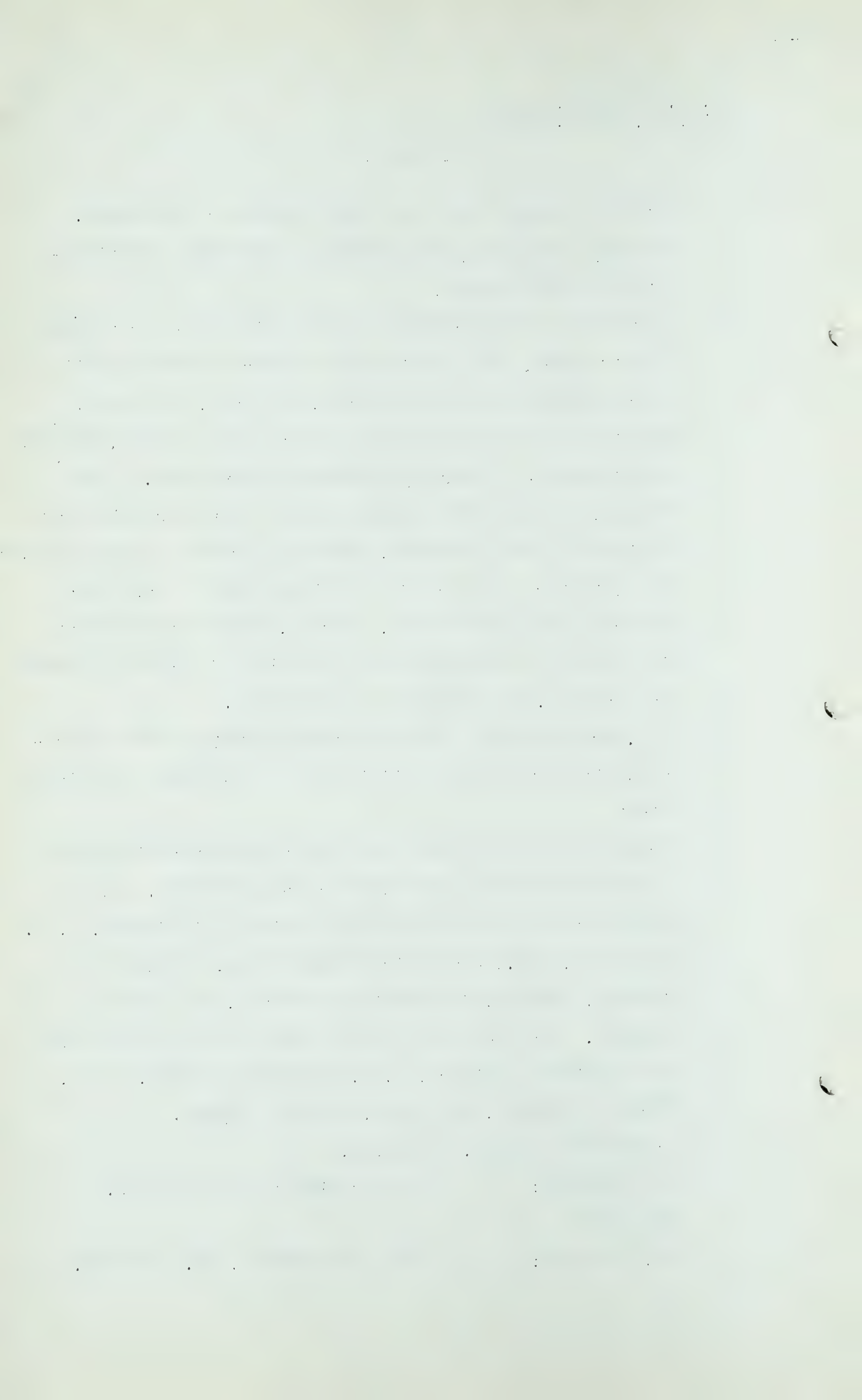
Q Now, are there any other investment banking firms associated with you in their willingness to undertake the financing?

A From time to time there have been a great many investment banking firms who have asked for participation. At the present time there are associated with us in Canada, A. E. Ames & Co. Ltd., James Richardson & Sons, Greenshields & Company, Dominick Corporation of Canada, and Tanner & Company. In the United States there are associated with us Dominick & Dominick, W. C. Langley & Company, Glore, Forgan & Company, and Moore, Leonard & Lynch.

Q I think that is all, thank you.

THE CHAIRMAN: Anybody wish to question Mr. Schoales?

MR. McDONALD: Just one question, Mr. Chairman.





N. D. Schoales,  
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THE CHAIRMAN: All right.

.....

CROSS-EXAMINATION BY MR. McDONALD:

Q I understand, Mr. Schoales, that you are familiar with this exhibit, Exhibit 66, entitled "Route B - Consolidated System, Fifth Year of Operation, Summary of Estimated Revenues and Expenses"?

A I am.

Q As I understand now - I presume that you have also seen the more recent, or seen a similar statement for the first years of operation?

A I have seen numerous studies which have given figures on the various estimated loads and on various bases.

Q Well, the only load that I am interested in, Mr. Schoales, is what we can attempt to tie together in this Hearing. I refer to Exhibit 28, the estimated load for the first year is 36,804,000,000 cubic feet. Will you tell me now if you have seen that prepared, a revenue and expense statement for that particular year?

A I have seen various . . .

Q Now, just a minute, Mr. Schoales. There was prepared for this 36,804,000,000, or close to it?

A On the basis of 36,000,000,000 throughput?

Q Yes?

A There have been various studies made.

Q Yes?

A With various assumptions.

Q Yes.

A And, of course, with various results.

Q Yes?

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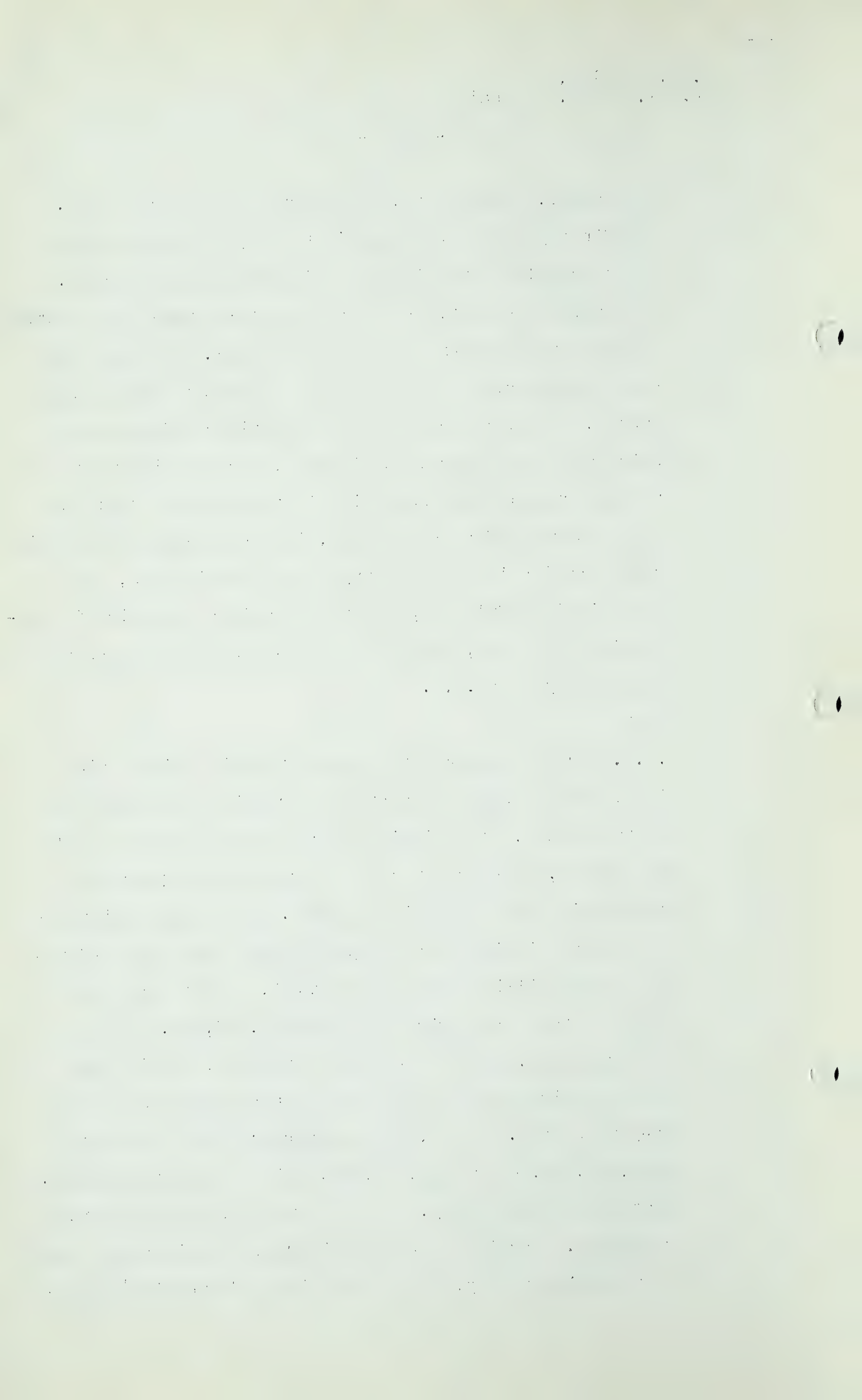
N. D. Schoales,  
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A In general, I would say, as is true of all pipe lines, the first year of operation is usually a year in which the stockholders receive no dividends and take a loss. As a matter of fact, if at that low throughput you attempted to get a full return on the common stock, you would have such a high price of gas that you could not open up your market. Now, and that leads to economic considerations which are really paramount in this, and one thing that I am particularly impressed with in the evidence that has been adduced before this Board, is the absence of economic consideration in a great many of the submissions, and I think it is awfully important to consider economics in connection with this, and now that you mention the earnings in those early years. . . .

Q Yes?

A . . . and the earnings throughout the life of the pipe line, it is awfully important to consider the economics of the market, the relative price you are going to sell the gas at, whether you can sell gas at that price in competition with fuels in the area. And I would point out to you that it is a very simple economic fact that if you have an 80 billion annual throughput, a difference of 5 cents in the sales price will mean \$4,000,000.00 a year to a consumer, or to a group of consumers, and it will mean practically the cost of the entire pipe line over a 25-year period. Now, no one approaches the raising of \$100,000,000.00 or \$250,000,000.00 in a haphazard manner. That is a lot of money, even to some of the big insurance companies. And it is with considerable consideration that I am willing to say, and in the light of our firm's repu-



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tation, that we are willing to undertake the financing of this project.

Q Yes. Well, I will just return to my question, Mr. Schoales, which was this: What, in the first year's operations, would be the annual earnings of your company, or what percent would it be calculated on a rate of return basis?

A The return on the common stock would be zero. It would be probably a loss.

Q Just a minute, Mr. Schoales. We know some fundamental accounting here. Answer my question. What rate of return would you earn the first year, what percentage, is it 2%, 1%, or 6.5%?

A It certainly would not be 6.5%.

Q I know that.

A The earnings in this pipe line, as is evidenced by the fifth year, would come up to a 6.5% return, and the earnings in the earlier years are probably barely sufficient to cover the bond interest.

Q Now, is it sufficient in the first year?

A I believe it will be.

Q You believe it will be?

A Yes.

Q Can you tell us, I am sure that you calculated it, you believe it will be?

A I believe it will be.

Q You believe it, but you have not calculated it and cannot say positively?

A I have made various calculations, and I am sure that some of my associates have made many more.

Q Yes. But the only point that I wanted to get at, Mr.





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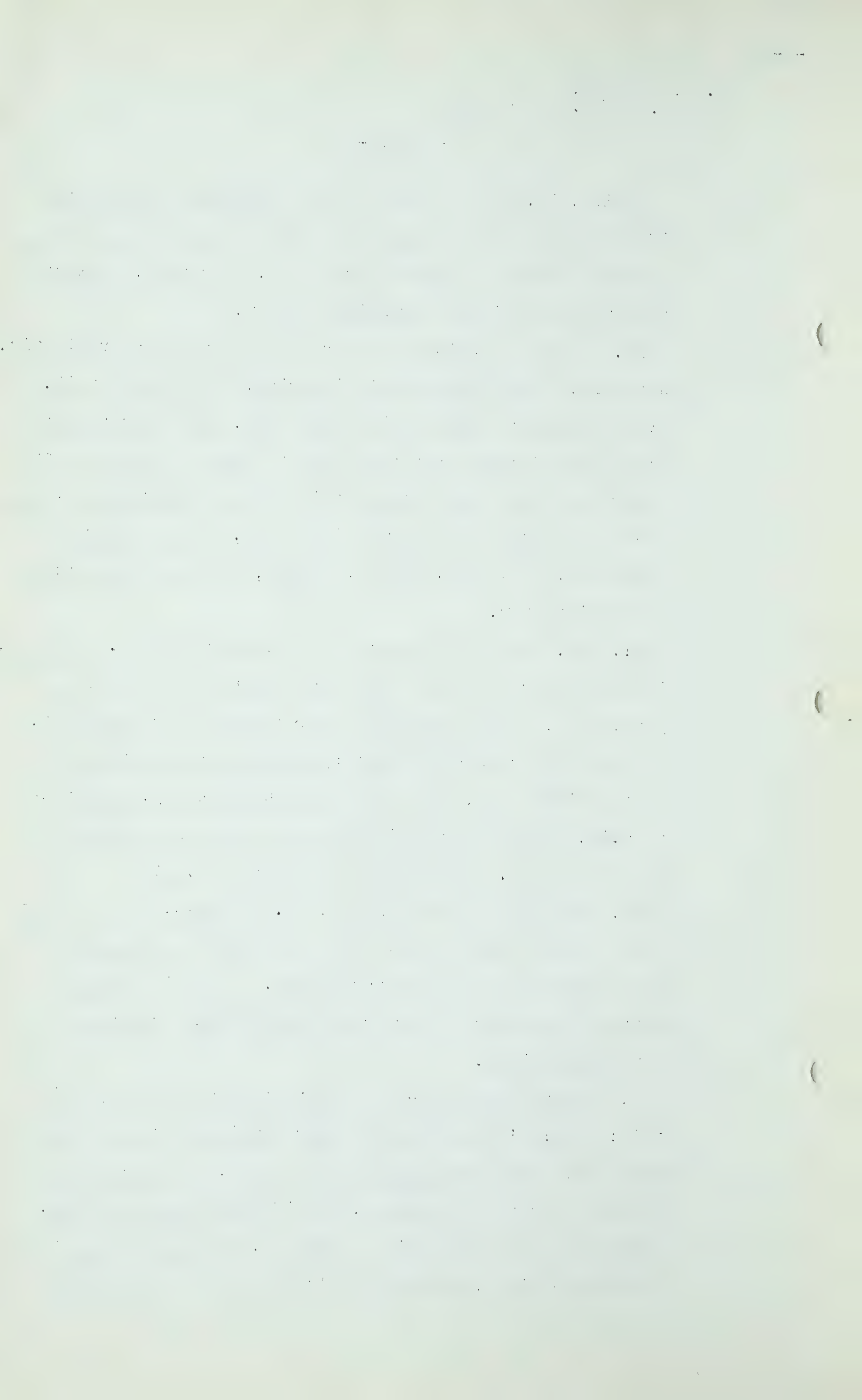
Schoales, is, and I would not be questioning you at all if you had filed a revenue statement based on the average for the first five years which would, of course, reflect the question which I am asking you now.

A Well, I do not consider an average to be anything realistic. Actually, when one looks at financing, you look over it, over the entire life of the bond issue, and you consider all of the factors that are going to come to bear on that before you consider whether it is a sound investment or not. And an average of the first five years, or an average of ten years, or an average of 20 years, is not of any value to the investor.

Q Well, now, the only suggestion I have for you, Mr. Schoales, is that in order to get your bond interest in the first year, as I, in my amateurish way, look at your statement, it does not occur to me that by working up from the first to the fifth year, when you have your peak day, your peak at 6.5%, that you are going to earn your bond interest in the first year. You might be closer to 7.5%?

A Well, that may be your opinion, Mr. McDonald, but I do not know whether the Federal Power Commission would permit you to earn any 7% on an investment. That is another matter of whether you are considering sound economics in your assumptions.

Q Now, you can just say - the question I want to ask you is this: Wouldn't the Federal Power Commission look at the first five years of financing this line, and look at the average over the five years, and if it was under the 6%, or not an unduly excessive earnings, that that is what they would allow, and they would not look at any year in



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the first five years. Isn't that how they would look at it?

A I do not know how they would look at it. They have looked at various things in various ways, and there is only one thing I can say with regard to your statement, Mr. McDonald, and that is that I do not stand alone in my thoughts that this is feasible or an economic proposition.

Q No. Please get me right, Mr. Schoales. I am not questioning Morgan and Stanley's ability to carry it out, and I do not question or did not question Mr. Dixon giving away the shareholders' money, when he was giving away the shareholders' money the other day, but I want to ask you with regard to it so that the Board can have all these submissions before it, and compare the submissions. And I suggest that they are not comparable unless we have before us an average earnings statement, as I suggested to you, on the basis of 36,000,000,000 in the first year, 53 in the second, 64 in the third and 73 in the fourth?

A Well, I submit that the statements are not any more comparable than that small matter you are talking about. As a matter of fact, the matter of supply is not comparable; the matter of the engineering of the lines is not comparable; the matter of yours and other people's valuation of the markets is not comparable.

Q That is right.

A And I may well, perhaps, be in a fortunate position, that of a person who has looked at the economic soundness and at the feasibility of the project, so that I do not have to fully accept any figure that has been presented, but can weigh them and can evaluate them and can eliminate or

1. Introduction

2. Methodology

3. Results and Discussion

4. Conclusion

5. Acknowledgements

6. References

7. Appendix A

8. Appendix B

9. Appendix C

10. Appendix D

11. Appendix E

12. Appendix F

13. Appendix G

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15. Appendix I

16. Appendix J

17. Appendix K

18. Appendix L

19. Appendix M

20. Appendix N

21. Appendix O

22. Appendix P

23. Appendix Q

24. Appendix R

25. Appendix S

26. Appendix T

27. Appendix U

28. Appendix V

29. Appendix W

30. Appendix X

31. Appendix Y

32. Appendix Z



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can add, and can give different weights to different things and different representations that have been made. And I have so done. And I would add that I feel that I am supported in my belief in this matter by the fact that three major producers have evaluated the soundness of our project. They granted us firm, exclusive contracts. And that two major consumers, that is, Portland and Seattle. . .

Q Yes?

A . . . they did the same, and have granted us exclusive contracts, and they must consider it economically sound.

Q We will take for granted, all you have said, Mr. Schoales, Will you tell me this, With reference to your amortization of your funded debt, as I understand your statement, or Mr. Dixon's statement to the Chairman, your funded debt is to be retired at \$2,000,000.00 in the second year, \$3,000,000.00 in the third, \$4,000,000.00 in the fourth, and I believe it continues, it continues at, what figure, \$4,000,000.00 in the fifth year?

A I believe that is true.

Q Yes. And I notice that the depreciation you earn is \$3,167,000.00, so the shareholders are donating - this is depreciation - yes. So the shareholders will be donating another, roughly, \$1,000,000.00 to the funded debt.

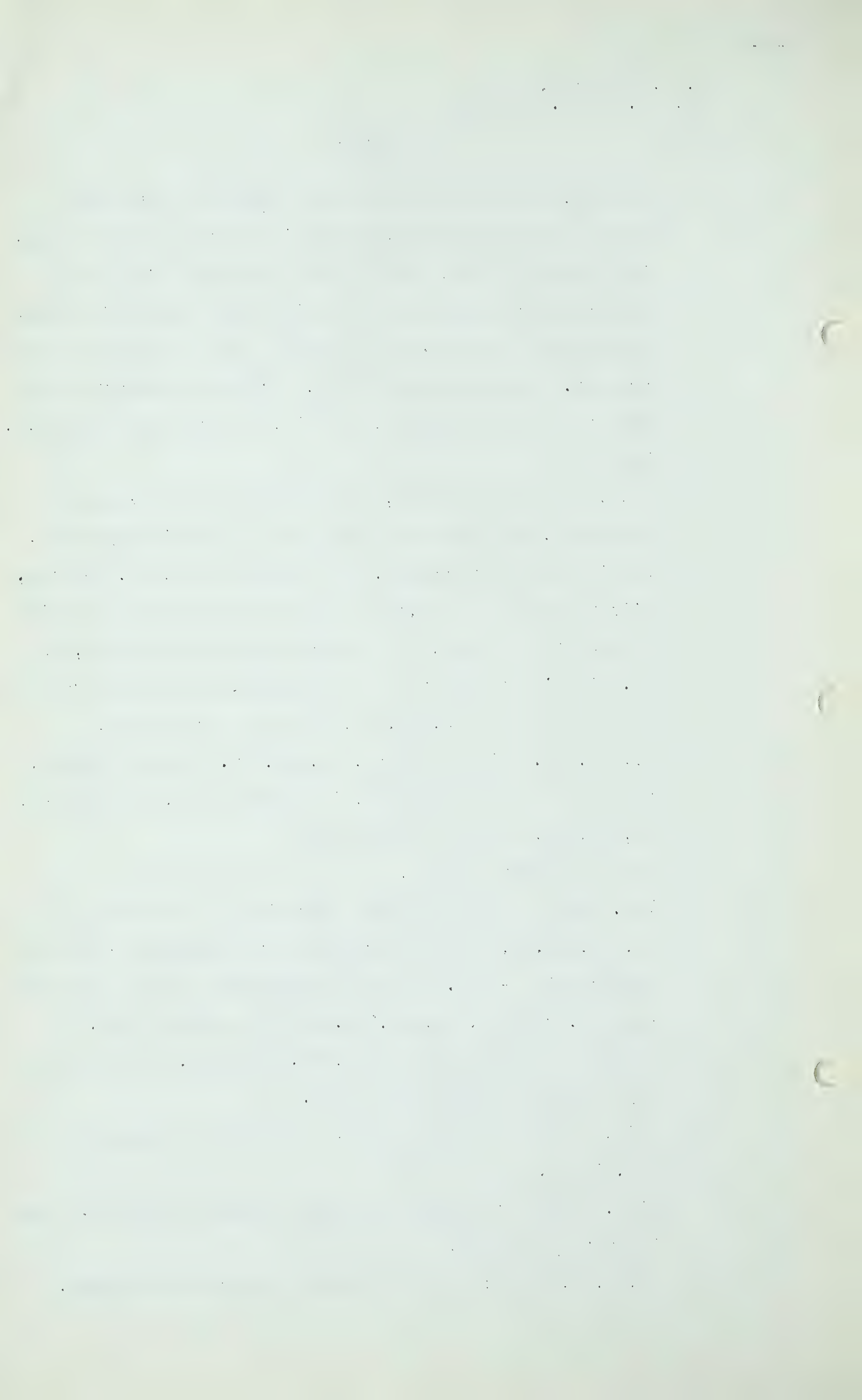
A Unless you are a shareholder, Mr. McDonald, I do not know why you should worry about that.

Q Well, I mean, I want to know. That is your answer?

A Yes, it is.

Q Fine. I want to learn how Morgan, Stanley finances. That is just by the way.

MR. C. E. SMITH: You should hear Laymen Brothers.



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Cr. Ex. by Mr. McDonald

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MR. McDONALD: Naturally.

A I cannot agree with some of the financial theories that have been put forward here.

Q And then as I understand it, you finally arrive at the end of your 20th year, and take care of the full amount of your funded debt, and I have just forgotten what it was originally, \$69,000,000.00?

A I would point this out, Mr. McDonald, that those are sinking fund figures that have been used for purposes of calculation.

Q Yes?

A Naturally, the terms of any bond issue would have to be arrived at with consideration of the desires and the considerations that the institutional investors might have at the time, and also with considerations of the economic conditions existent at that time. And, of course, today no economist and no banker can predict the fluctuations of the stock market or the bond market, or indicate what level it is going to be at six months or a year from now, at whatever time one would do the financing.

Q Yes. Well, there is only one other question, Mr. Schoales. I noticed something which Mr. Dixon admitted was unusual, that in this Northwest Natural Gas and Canadian Gulf contract, which is Exhibit 61, provision has been made in the event that there is a \$10,000,000.00 error in the estimate of construction costs that there will be a reduction in the purchase price of the gas?

A That is correct.

Q All right, thanks.

A I think that will do the financing.



N. D. Schoales,  
Cr. Ex. by Mr. Martland

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Q I was going to suggest that that was possibly your idea,  
but I did not like to put it that way or to go that far.

.....

CROSS-EXAMINATION BY MR. MARTLAND:

Q Mr. Schoales, I notice that in answer to a question put by  
Mr. McDonald that you used the phrase "that producers have  
evaluated our project", so that I take it that the Northwest  
Natural Gas Company project is a Morgan, Stanley project,  
is it?

A Well, I do not know what you mean by a Morgan-Stanley project,  
but if by my saying that we are willing to undertake the  
financing makes it a Morgan-Stanley project, I think that  
would be the case.

Q I am using your own words, Mr. Schoales. What do you mean  
by "evaluate our project"?

A Northwest Natural Gas Company.

Q Why did you use the words "our project"?

A Well, perhaps because I have been sitting in this room  
for two and a half years and have been talking about  
"our" and "we".

Q MR. C. E. SMITH: And Mr. McDonald kept using that  
to you, Mr. Schoales?

A Yes.

Q MR. MARTLAND: I rather thought that when you got to  
the basis of a big financial house, that they probably used  
the words "our" and "we"?

A I do not know that that is in standard practice, Mr. Martland.

Q I see. Just what is the interest of Morgan-Stanley in the  
Northwest Natural project at the moment?





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A Northwest Natural was started some five and a half or perhaps more years ago by the firm of Brokaw, Dixon & McKie, and their associates, and between two and a half and three years ago they approached Morgan-Stanley to study whether they would be willing to finance a project. We gave considerable thought to it, and said that we would, and we have followed it very closely ever since. We have not only followed it in this Hearing, but I have personally been out over the major portion of the routes of all of the pipe line systems before this Board, with the exception of the Pine Pass, I think, and we have a financial interest in Northwest as well as a financing interest to a small percentage of the common stock.

Q Will you tell me what it is?

A Oh, it is in the neighbourhood of, it is less than 10%.

Q Any commitments or options?

A No, sir.

Q Or understandings as to additional amounts?

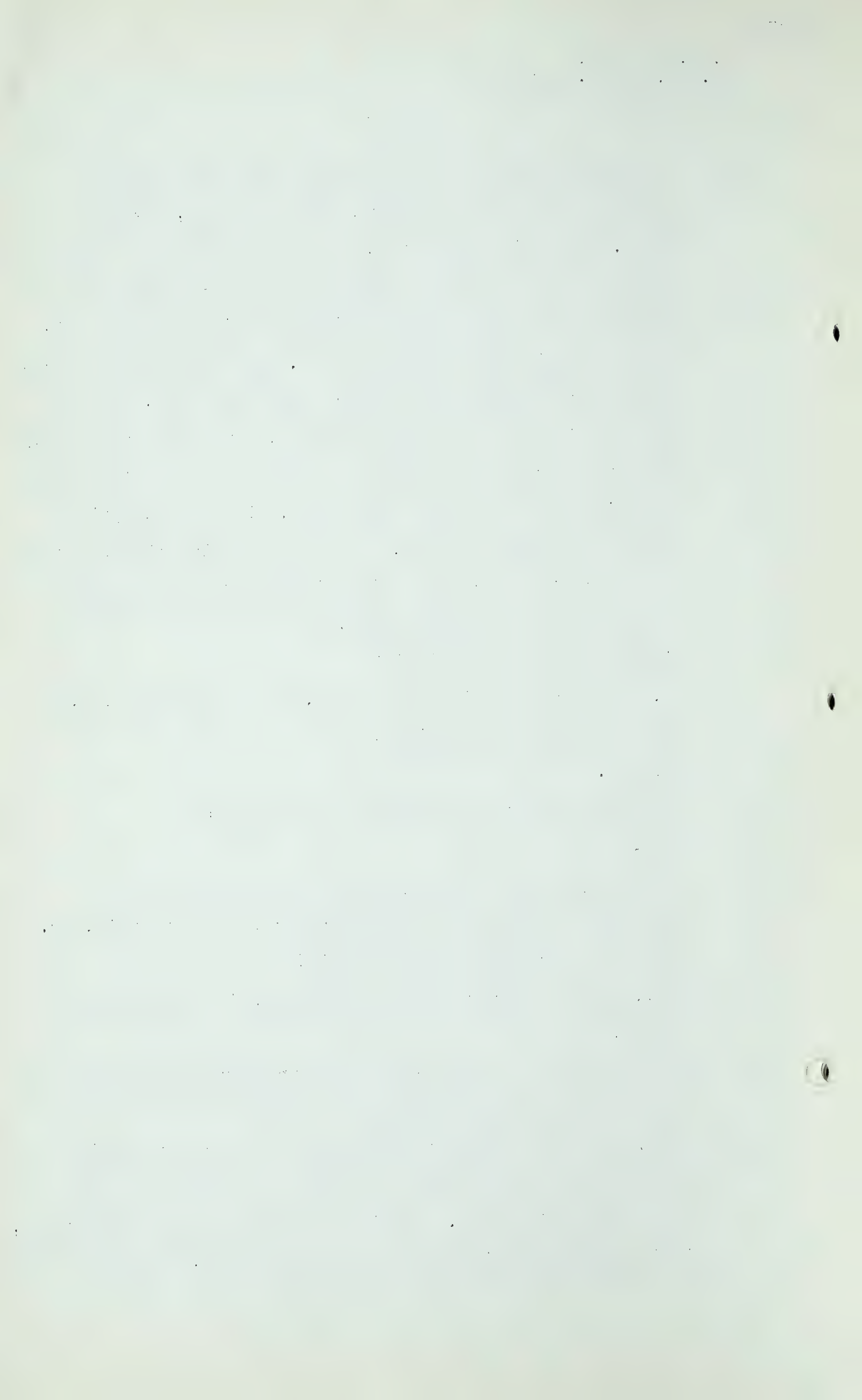
A None.

Q And when you tell us today that you are prepared to undertake the financing of the project, on what basis, Mr. Schoales? What would be the basis?

A Well, as is outlined in these exhibits, 75% bonds and 25% equity.

Q But what would be the terms of the underwriting commitment? That must have been discussed?

A Well, those are things that one does not agree to until we find the various factors you have to consider at the time of the financing. If it is a time of great difficulty, if it is very difficult to sell common stock, I should



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Cr. Ex. by Mr. Martland

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think that one would need a higher selling commission than you would if it were a time when it was easier to sell common stock, so that nothing can be fixed on that now.

Q There is nothing even remotely specific even after two and a half years, Mr. Schoales?

A There certainly isn't.

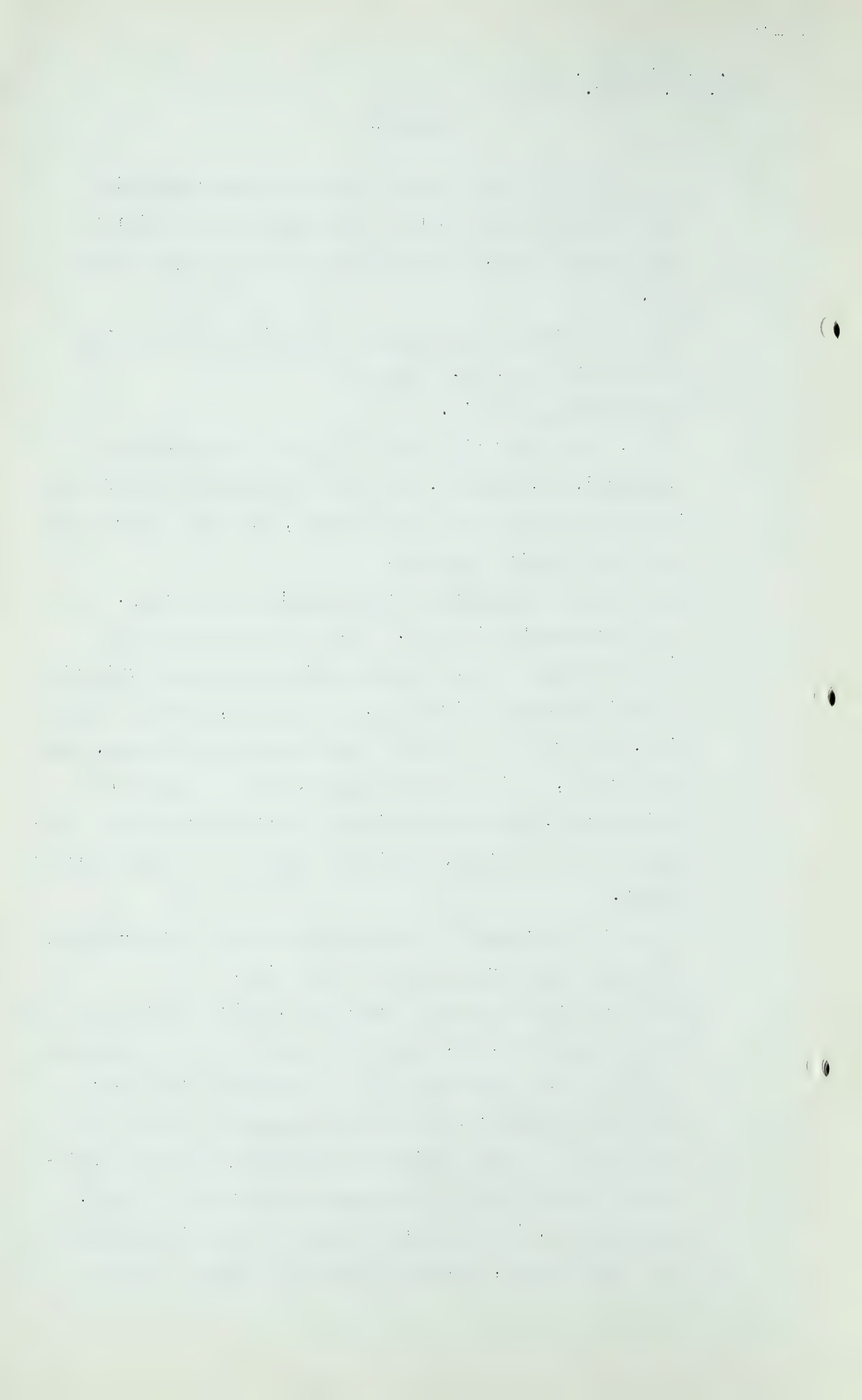
Q I see. How many pipe line issues has Morgan-Stanley sponsored, Mr. Schoales, and I am not speaking now of those in which your firm has participated, but those which your firm has actually launched?

A We have never sponsored a pipe line in its entirety. We have participated in many. But I would point out to you that there is very little difference in the evaluation of projects such as iron ore, such as oil, such as a pipe line, or such as the bonds of the Dominion of Canada, all of which we, as investment bankers, have to consider on their merits, and evaluate in the light of all of the economic factors involved, and in the light of the then current market.

Q I take it the answer to my question is that Morgan-Stanley have never sponsored one up to this time?

A But I point out that the experience, which I gather you are trying to get out, of whether one has or has not sponsored a pipe line is immaterial in the background of a broad financial experience, and we have sponsored certain oil pipe lines. We are familiar particularly with the engineering studies that have been made on various projects.

Q Have you ever, in the course of any of those in which you have participated, found one that was comparable to this





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Cr. Ex. by Mr. Martland.

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project? What I have in mind is the fact that it involves export to the United States, reimport into Canada, and the existence of the statute which my friend, Mr. Smith, read in part to Mr. Dixon. Have you ever run into anything quite like that before?

A I do not think there has ever been any proposed series of pipe lines that are similar to this series of pipe lines before the Board?

Q Now, how does the proposed rate of the bond issue compare with the average rate of interest on bond issues for major pipe line projects in the United States?

A It depends on what you are considering, what might be termed a going rate at the present time, or the rate at which those bond issues were issued some time in the remote past.

Q Let us do it in two stages, and deal with the second one first?

A Yes.

Q How does it compare with rates on issues which have previously been made?

A The bond market in recent months has been weak, and there has been an issue of a pipe line placed privately, and that pipe line is a going concern, not a new construction project, at 4%. I consider the rate of  $4\frac{1}{4}\%$  that has been used a fair rate. I would consider a rate of 4% particularly too low.

Q You have mentioned a recent issue at 4%?

A Yes.

Q Can you give me the figures, the rates on some of the bond issues on some of the big American pipe line projects,



N.D.Schoales,  
Cr. Ex. by Mr. Martland.  
Cr. Ex. by Mr. Milvain

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Mr. Schoales? What is the rate?

A 3-5/8, perhaps, is a bottom level, and 4% is the top on the going rate, that is, in recent periods.

Q Thank you.

.....

CROSS-EXAMINATION BY MR. MILVAIN:

Q Mr. Schoales, I would gather that one of the important economic considerations would be to try to make sure that gas was going to be sold at the far end of the line?

A That is true.

Q At an economic basis, or on an economic basis?

A At a competitive price.

Q Now, I suppose you have made a survey to find out whether or not that could be done in this proposed system?

A I have certainly studied all the testimony that has been submitted before this Board, and I believe that the supply of gas as submitted on behalf of Northwest, and the contractual arrangements that they have made, is sufficient to permit of the financing of the line. I have also considered the supplies that are available, not by contract, but others, and have my opinion on the relative merits.

Q Yes. So that in deciding the economic feasibility of selling gas at the different points along the line, you would generally consider two factors, one would be the landed price of gas at the burner tip, and the other would be the cost of other competing fuels. Those two factors are important, aren't they?

A I would add one other factor to that, and that is security of supply. I would not consider it would be sound economi-



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Cr. Ex. by Mr. Milvain

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cally or sound financially if you had other factors that might enter, such as difficulty of maintenance, lack of a broader area in which to draw from. And I would point out that in the case of the Northwest Natural Gas they propose to draw gas from an area which has a great many other fields than the three fields that are to supply it. So you have another string to your bow, sort of, on an economic basis on the supply.

(Go to page 2264)





Dudley N. Schoales,  
Cr. Ex. by Mr. Milvain.

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Q So we may summarize the situation that there are three factors to take into consideration, one, the landed price of gas to the burner tip; two, the price of competing fuel, and, three, is your general security of supply.

A Security of supply, and of course, you must consider also whether the line has been soundly designed and set up to be able to carry the gas between the producer and the consumer.

Q That might be one of the factors that would go in to deciding the general picture of security of supply?

A Right.

Q Now, so far as I can understand. the project that we are now considering, we start with the gathering system in Alberta, we proceed through the Crow's Nest Pass into British Columbia, through some B.C. cities into the United States, through the United States and then back into Canada south of Vancouver?

A Yes.

Q Now, I gather that it is expected that gas will be sold first of all to some points in Alberta like in Cardston and Magrath, through the Crow's Nest Pass?

A If they desire it, yes.

Q Now, did you in your study give any or make any investigation as to what it would cost to land gas at the burner tip in Cardston and Magrath?

A No, I did not.

Q Or in the Crow's Nest Pass?

A No.

Q Or in the intervening B.C. cities of Fernie, Cranbrook, Kimberley?



Dudley N. Schoales,  
Cr. Ex. by Mr. Milvain.

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A No, I have not made any studies like that.

Q So that you have made your study and completed it leaving absent any knowledge of the cost of landing gas at the burner tip in any of those places?

A Well, the amount of gas that would be sold in those towns would be relatively small and would have relative little effect on the over-all economics.

Q Well, then, I take it that your answer to my question is that you in your study have given no consideration as to the cost of landing gas at the burner tip in those places that I have mentioned up to now?

A No.

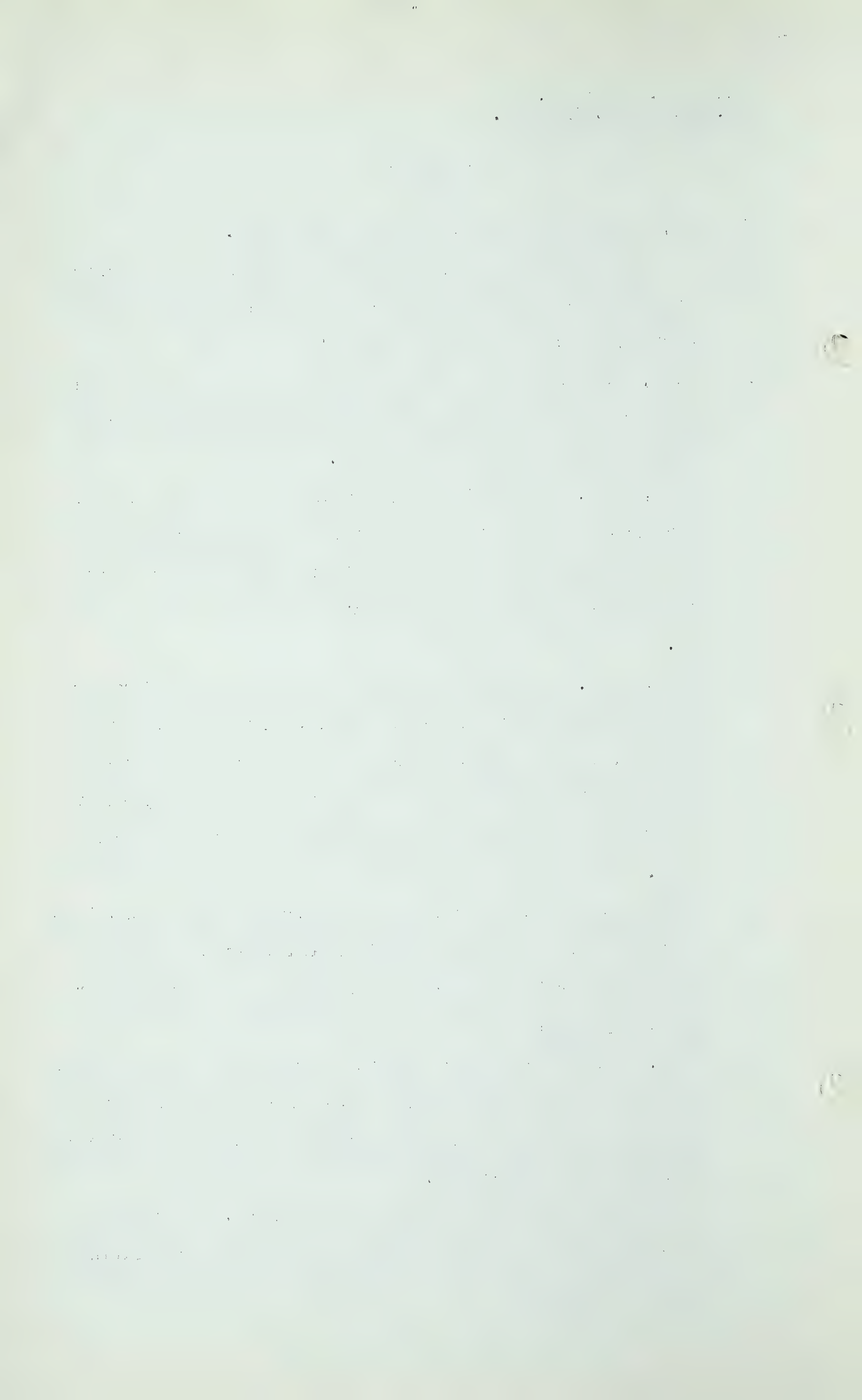
Q Well, then, after the line gets into the States it moves through some fairly important areas. Let us think of Spokane, Seattle and Portland. Did you make any study as to the cost of landing gas at the burner tip in Spokane?

A I have not made any study on that but it could be readily done.

Q I am wondering whether or not in reaching your conclusions that you have been telling this Board about you did take into consideration the cost of landing gas at the burner tip in Spokane?

A Well, when you consider a postage stamp rate over the whole area you are considering the over-all cost rather than the separate individual costs of Fernie or Cranbrook or Spokane or Portland or Vancouver.

Q We will consider then Spokane for a moment. Your postage stamp rate will land gas at the gate of the distributing system in Spokane?





Dudley N. Schoales,  
Cr. Ex. by Mr. Milvain.

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A Yes.

Q And that it is going to cost some money to get that gas from the gate of the distributing system to the burner tip?

A I would assume so.

Q Did you make any investigation to find out what that cost is in Spokane?

A No. I have heard evidence before this Board that Spokane can pay a high price for gas and compete with other fuels.

Q Well, I am wondering whether or not you made an investigation yourself?

A No, I did not consider it necessary for me to have made an investigation on that, Mr. Milvain.

Q So that you have in your studies developed no figures in that regard, you can not tell us what it will cost to land gas at the burner tip in Spokane?

A No, I can not.

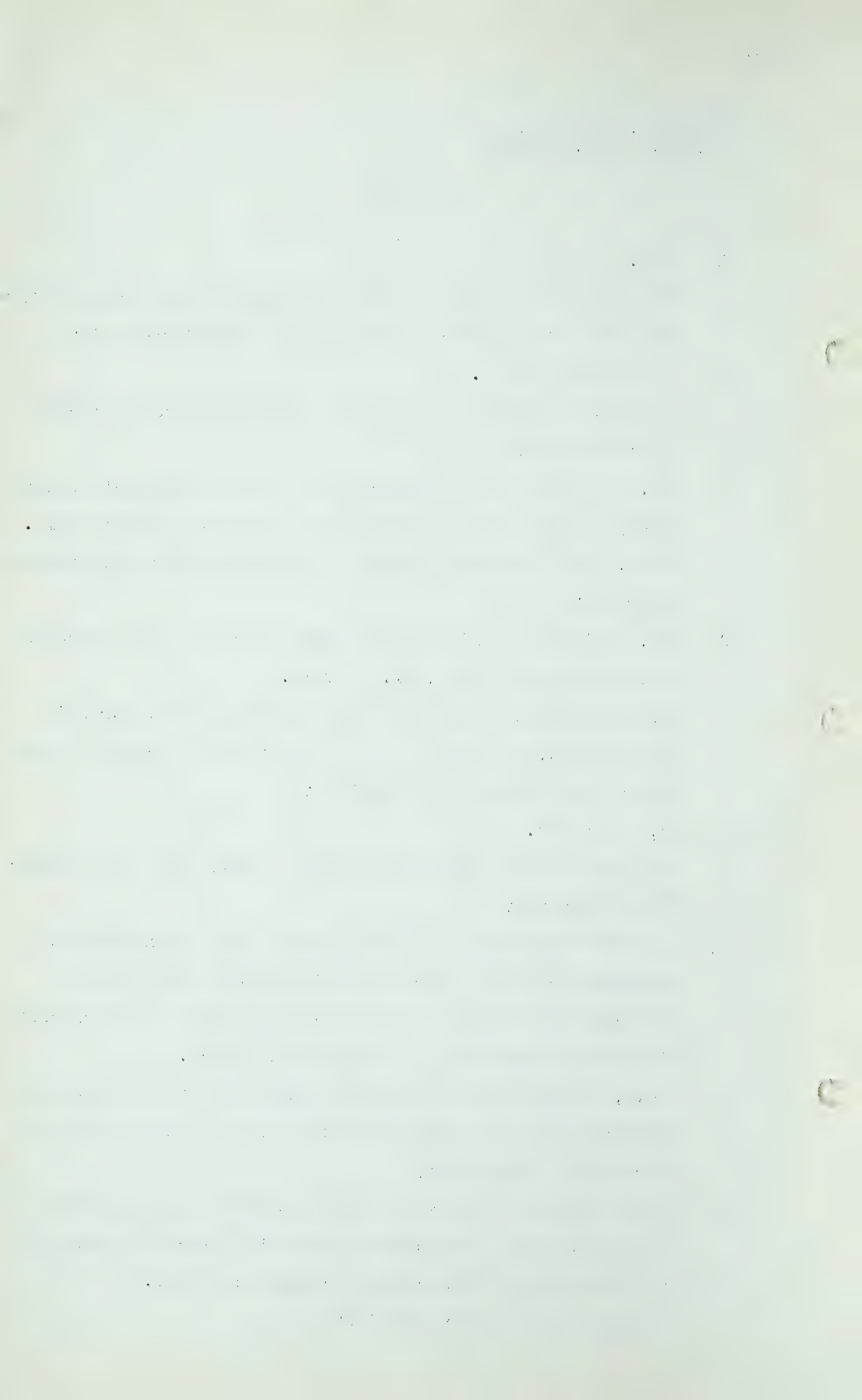
Q Can you tell us what it will cost to land gas at the burner tip in Seattle?

A I think there the Seattle Gas Company has demonstrated by signing a contract which approximates  $31\frac{1}{4}$  cents at a 70 per cent load factor that they consider that they can land it at the burner tip at a competitive price.

Q Well, I take it as your answer again that you have made no investigation as to what it would cost to land gas at the burner tip in Seattle?

A There have been numerous studies submitted here on behalf of all of these distributors as to what price they can pay at the city gate and obtain a competitive fuel.

Q You have made no such studies?



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A I do not think that that is the function of an investment banker to go out and make market studies, Mr. Milvain.

Q Well, the answer to my question, as I understand, is that you have not made such a study?

A That is true.

Q And therefore you do not know what it would cost to land gas at the burner tip in Seattle?

A No, I do not know what it would cost.

Q How about Portland? Are you in the same situation there?

A If you want to go through all of them, I do not know what the price is going to be at any town to land it at the burner tip through a distribution system which may or may not be an efficient distribution system.

Q And I suppose the same is true in respect of the Canadian cities of Vancouver and Victoria when you get back into Canada?

A That is true.

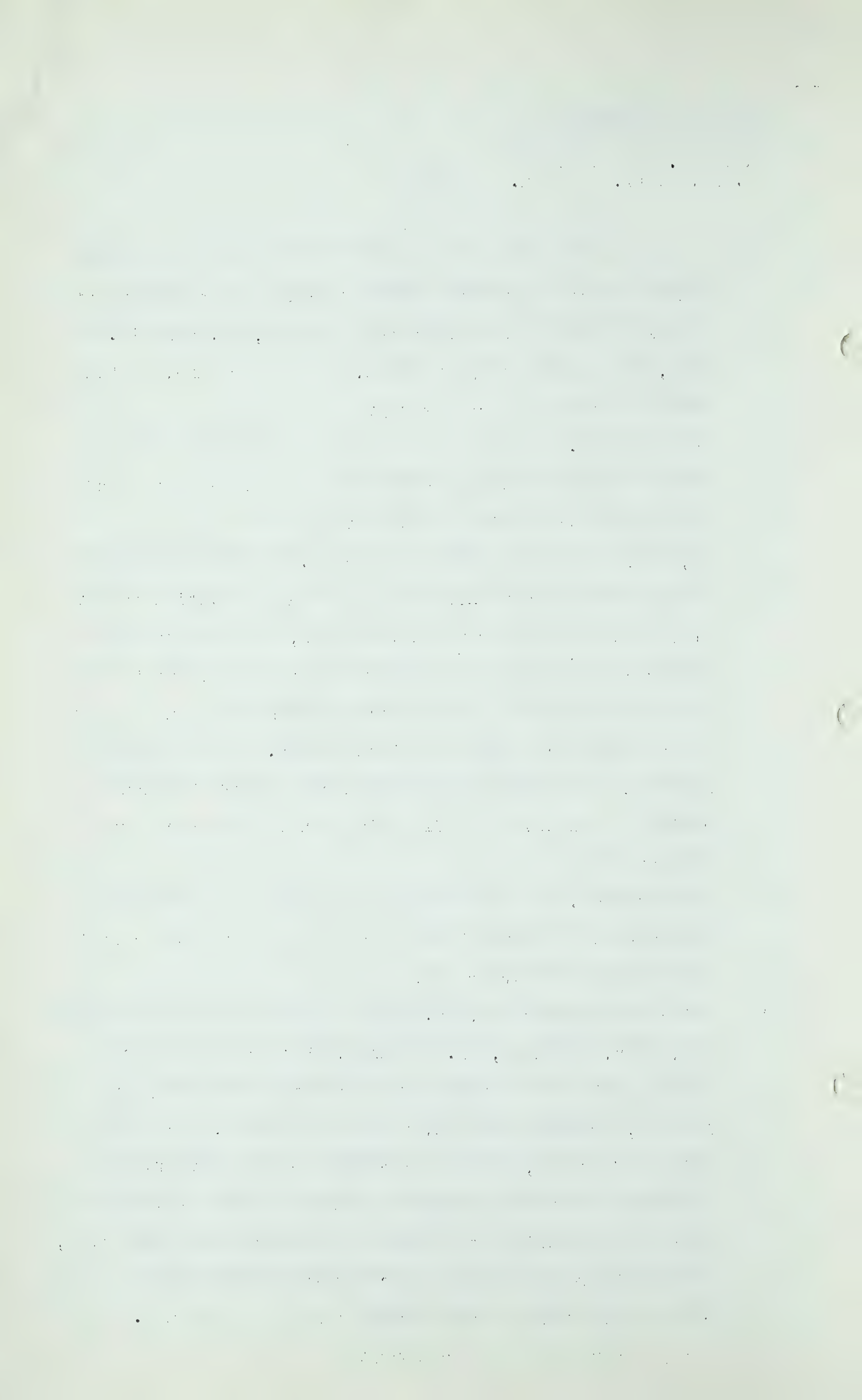
Q You have made no investigation as to what it would cost to land gas at the burner tip?

A Not at the burner tip, no.

Q Now, then, I wonder, Mr. Schoales, whether or not you made any investigation at any of the points of delivery in Alberta, British Columbia, the United States, back to British Columbia, about your cost of competitive fuels?

A That has been testified to on behalf of the various distributing companies at length in the Hearings of June 1950, and I believe that the evidence is fairly complete on competitive fuels in the Northwest Natural Gas case.

Q But you have made no such study?





Dudley N. Schoales,  
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A Not personally.

Q Or your banking concern that you represent?

A I do not consider it necessary for me to do that. I think the distributing companies and the engineers are perfectly competent to submit figures which I can rely upon.

Q Did Morgan, Stanley employ an engineer to do this?

A No. There have been engineers employed by the various distributing companies to assist them in market studies.

Q No independent survey was made by the banking concern?

A No, sir.

Q Now, you told me at the outset, Mr. Schoales, that security of supply of gas would be of extreme importance?

A Yes.

Q As I understand the proposed scheme of this company we are considering now, it is to export 80 billion cubic feet of gas per year for 25 years. Is that right?

A That is right.

Q That would work out to 2 trillion cubic feet of gas?

A Approximately.

Q You realize that?

A Approximately.

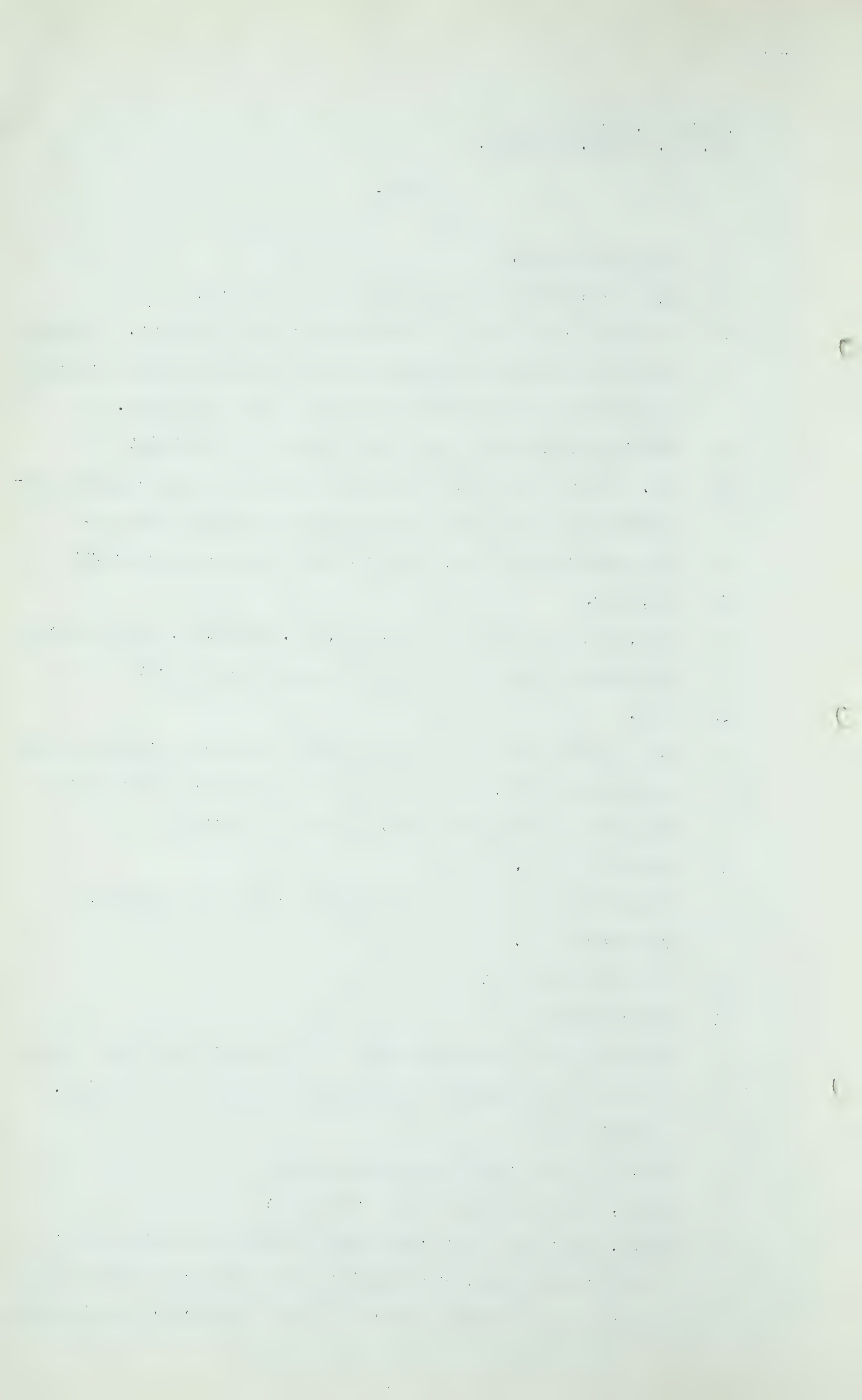
Q In the light of known reserves in Alberta, when you deduct 2 trillion it amounts to quite a substantial deduction, doesn't it?

A What do you consider known reserves?

Q Well, I am wondering what you think?

A Well, there has been considerable evidence submitted to this Board on that very subject and evidence by engineers who are very highly respected by the financial institutions.

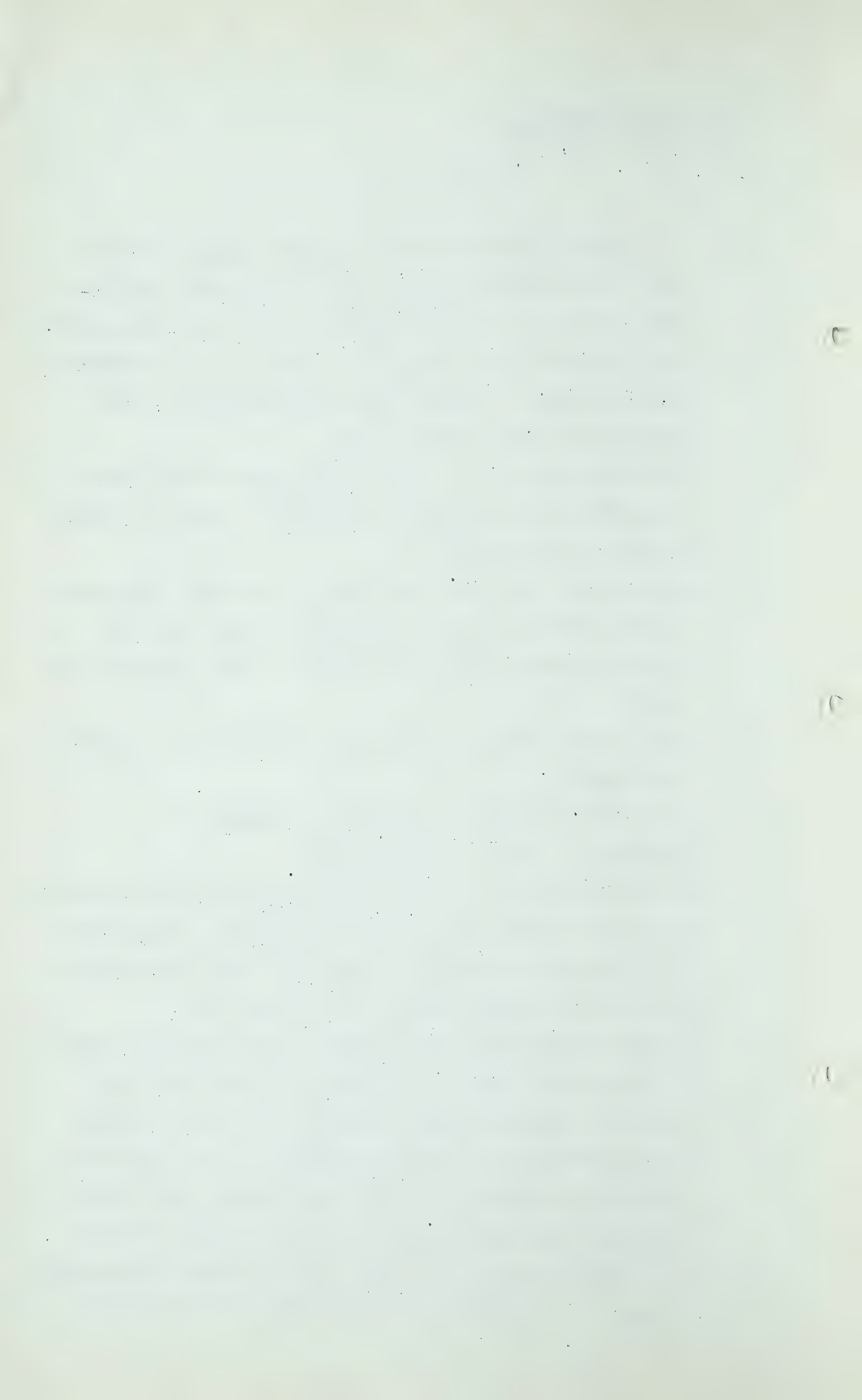




Dudley N. Schoales,  
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- In looking at that evidence, it would appear to me that there is an adequate supply, that the evidence would indicate there is an adequate supply to meet the requirement.
- Q Now, of course, from the point of view of your investment banking concern, it would have to be satisfied of the adequacy of supply, would it not?
- A There would have to be engineering reports to be given to the institutional investors certifying to the engineering opinion on the supply.
- Q And you would take into consideration the fact that under the laws of the Province of Alberta the existent gas reserves might be diverted by order of this Board to other uses?
- A That is true. That would be one of the hardships to the financing.
- Q And thereby imperil the security of supply?
- A That would be one of the hardships.
- Q So that in coming to a conclusion that there was a security of supply you must have had some conclusion in your mind as an investment banker as to what the reserves available to market in Alberta amounted to, is that so?
- A In this respect, yes, that I came to the conclusion based on the evidence that I saw submitted before this Board that there was an adequate supply for the local markets and a sufficiency over and above that to permit export of this specific amount. If I had not thought that I would not have considered that this was a financible project.
- Q Now, I am coming to a conclusion that this was a financible project. I would like you to give the Board the benefit



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of your conclusion as to what were the available reserves in Alberta?

A Well, I would not like to qualify as a geologist because I do not think I am competent to.

Q No, but as an investment banker you must have come to some conclusion as to what they were. What is your conclusion?

A Well, my impression is that there are relatively large supplies in the southern portion of the Province that are over and above the needs of the Province. My general impression is that the reserves in the farther north are smaller, and that therefore it would be more economic to take a line out from the area in which you have your larger supplies. And I would believe that in due course, as Mr. Dixon indicated, there might be further lines run up into the northern portions of the Province, and it would just seem to me that it would be economically sound for the Province of Alberta, thinking of Alberta's interests, to bring the gas that is in Alberta down through Alberta.

Q Yes, but surely we have got to start off with some conclusion as to how many trillion feet of gas there are in Alberta available in reserve. Now, what was your conclusion in that regard from which you draw a banking investors' conclusion?

A Well, my conclusion is that the reserves are in excess of the 2 trillion plus the 30-year plus requirements of the Province.

Q Yes. And what were the requirements of the Province, as you placed them?

A I do not remember the figure that was stated in the Interim





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Report but I will accept that.

Q However, in view of the importance of the fact that you are going to take 2 trillion from something, you must have had uppermost in your mind what that something is, and if you have, I would like to know what it is?

A Well, as I have said, Mr. Milvain, I do not want to testify on what the reserves of the Province are. I do not think I am competent to. I have said that I feel that they are in excess of the requirements of the Province plus this amount for export.

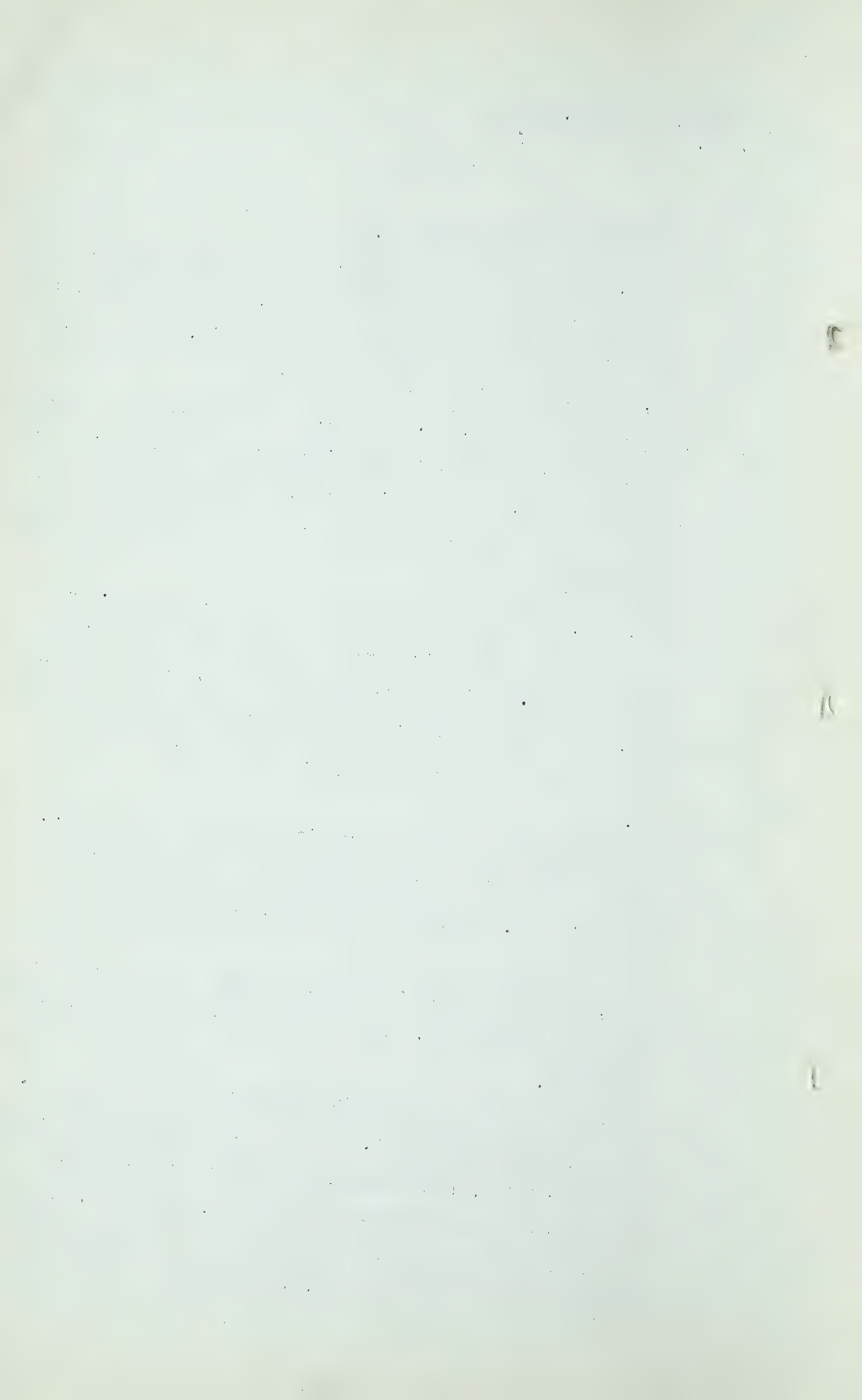
Q Well, now, let us try and get at it in a simple way. We will make an assumption. Let us assume that the needs of Alberta are 4.6 trillion cubic feet of gas. Let us assume that, and let us assume that the reserves amount to 5 trillion. Just let us assume it. Follow me?

A Yes.

Q And you propose to take 2 trillion off that 5 leaving 3, knowing that this Board has the power to divert gas to Alberta's use. Would you then say you had security of supply?

A Well, fortunately, I do not have to make a decision on the basis of assumptions. I feel that there is a sufficiency of supply.

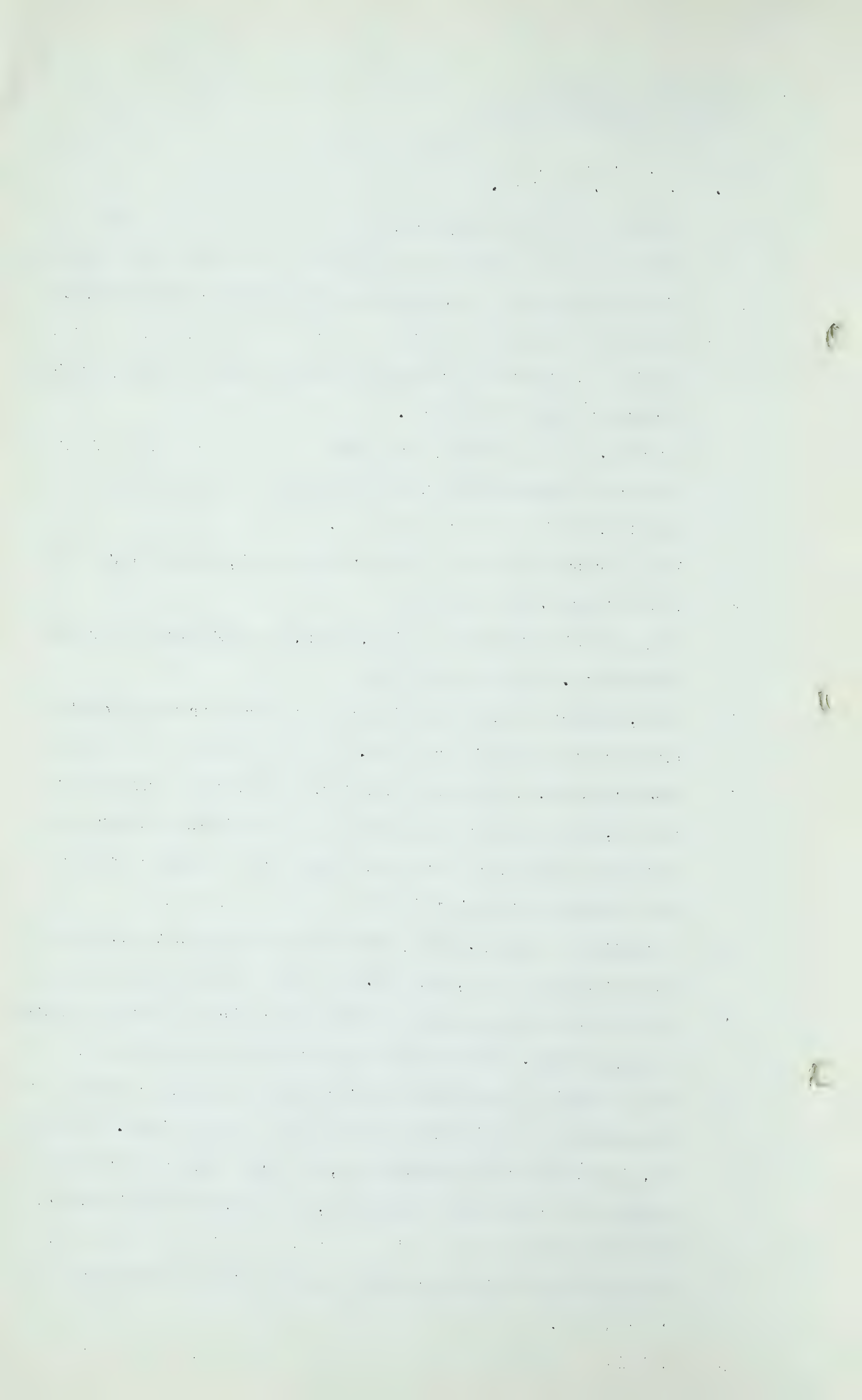
Q I would like if you would just answer my question first. Take my assumption first. I am not saying that the reserves are 5 trillion, I am saying, assume that condition and that you are going to take 2 of that 5, leaving 3. Would you then say in the light of your knowledge of the laws of Alberta that there was security of supply?



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- A If that were the case, and only if that were the case, I would not only question the security of supply but I would question whether one could raise the amount of money sufficient to build the line.
- Q Exactly. You would say the scheme was not feasible from a financial point of view?
- A I would, if that were the case.
- Q And your banking house would not back it, would you?
- A That is true.
- Q So you must have had in mind, then, some figure other than 5 trillion. What was it?
- A Well, you can take it it is the total requirements of the Province plus the 2 trillion.
- Q Mr. Schoales, I am only a lawyer, I am not an investment banker, but I would think that the investment banker must have had some idea as to what those reserves were before he started to take 2 trillion out of it and say there is security of supply. Now, what had you in mind? If you had nothing in mind, say so.
- A I think you can tabulate without specifically getting down to any figure. You can tabulate the reserves as estimated by the various geologists before the Board and come up with a figure that is in excess of the amount required.
- Q Oh, I have no doubt about that, one can tabulate many things and come up with results, but I would think surely an investment banker must have had some fixed idea in his mind as to what those reserves were before he reached a conclusion.
- A I believe that when it comes to the financing that an



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engineering report will be made to the bankers for submission to the institutional investors that will adequately cover that point to the satisfaction of the institutional investors.

Q Perhaps we can summarize where you and I have gotten to in this way, that as an investment banker you have come to the conclusion that this project is financible?

A Right.

Q But you do not know the cost of bringing the gas to the burner tips, that is true?

A Nor do I think that that is --

Q And you do not know the cost of competing fuels?

A Yes, I do, they are in the evidence.

Q Well, now, you told me a moment ago that you made no study of them.

A I also told you that I had reviewed all the evidence that has been adduced before this Board.

Q Well, we will come to the third point, then, and I take it that you have no fixed conclusion in your mind as to what the reserves in Alberta were in order to arrive at a conclusion of security of supply?

A Again, I have studied all the evidence submitted here and have not made any personal study of the reserves of Alberta.

Q And notwithstanding the studies you have made, you are not now in a position to tell me or this Board that you had in mind any figure as being the reserves in Alberta?

A I would rather rely on the opinion of experts as to what the reserves in Alberta are.

Q Well, what opinion did you rely on?





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A There are various opinions before this Board you can take. You can take the De Golyer and MacNaughton figures, for instance. They are a perfectly reliable firm and well accepted by institutional investors.

Q Which opinion did you, as an investment banker, rely on?

A I think the De Golyer-MacNaughton figures are good figures.

Q Did you rely on their figures?

A In part.

Q What else did you rely on?

A I think the Canadian Gulf Oil Company has a knowledge of what they have in their own field. I think the Standard of California have a knowledge of what they have in their own field. I think that Mr. Slipper of Britalta has a knowledge of their reserves.

Q But in arriving at a conclusion that this is a financible project, I take it you have no figure as to what those reserves are?

A I do not think it is necessary, Mr. Milvain, to pinpoint a surplus.

Q You do not think that is important?

A No.

Q You do not consider that is one of the important matters to be arrived at in deciding whether or not it is a financible project?

A There is there a surplus or there is not a surplus, and if this Board finds that there is a surplus that may be exported, I think that is a conclusion we can rely on.

Q That is right. And there are a couple of things that are necessary to arrive at that conclusion, first, to know how



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much are the reserves; secondly, how much you are going to take out of them, and then you know how much is left. But if you do not know how much there are, then you can not determine how much is left, can you?

A That is a fact. That is true.

Q That is all, thank you.

CROSS-EXAMINATION BY MR. MAHAFFY:

Mr. Chairman, I would like to ask this witness a few questions.

Q Mr. Schoales, in qualifying you as a witness, your lawyer, my learned friend, Mr. Nolan, asked you what was the difference between a banker and an investment banker. I wonder if you would go a little further and tell me what the difference is between Morgan, Stanley Company and the Northwest Gas Company?

A I do not think Northwest Natural Gas Company would be asked to underwrite the bond of the Government of Canada in the United States.

Q I must confess I do not follow that. I was not being entirely facetious when I asked the question. Morgan, Stanley and the applicant here, Northwest Natural Gas Company, are really one and the same thing, are they not?

A No, I would not say so.

Q You have a share interest in the company?

A A minority, yes, which I said was less than 10 per cent.

Q And I assume if, as and when you place the securities of Northwest Natural for sale you will be acquiring additional share interests in the company yourselves?





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A Not necessarily.

Q Will there not be some bonus of common stock on basis of the higher securities?

A No, not necessarily.

Q Not necessarily, but will there be?

A I would believe not. One can not tell exactly what the basis of the financing is going to be at this time, as I answered Mr. Martland.

Q I mean, there is no secret about it, is there? I mean, you are not up here for two-and-a-half years just for your health in this kind of a climate?

A I have enjoyed being up here, I will say.

Q There are substantial equities at stake?

A Yes.

Q And a substantial share interest in the pipeline company as part of that stake?

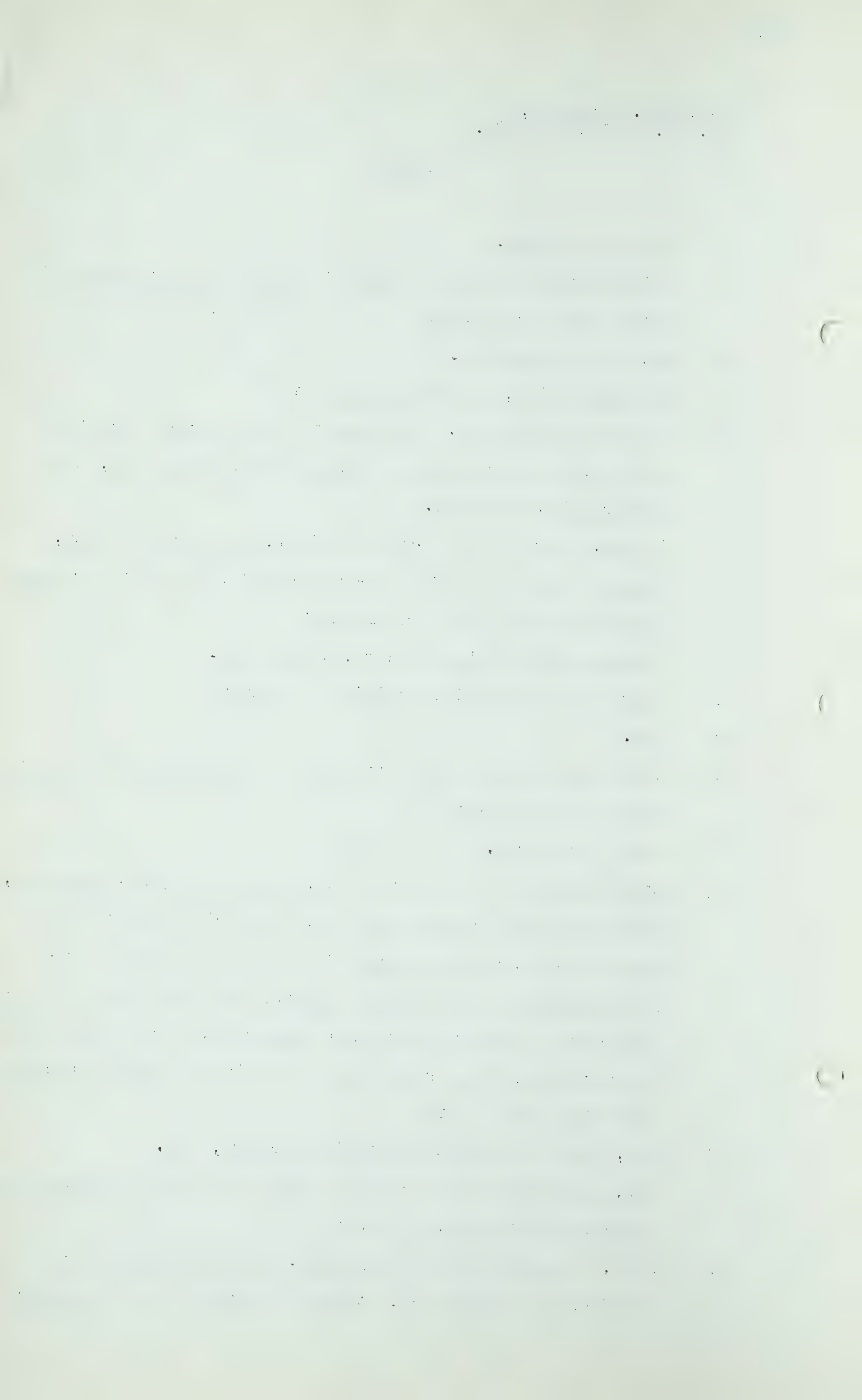
A That is natural.

Q And I suppose it is fair to say, would it be, Mr. Schoales, that really the crux of the whole financing situation is when you go with the package in your hand to the Metropolitan Life or some similar company and then they put some engineers to work and some more experts and the rest of it and decide whether or not they are going to buy the package. Isn't that about it?

A Yes, and to the equity security holders, too.

Q Yes, and until you reach that stage you do not know whether the line is financible or not?

A Well, I would not quite say that. I think that one can, based on his experience, evaluate a project as to whether



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it is the type of a package that has the economic characteristics and soundness that would meet the requirements of the institutional investors which we, from experience, are talking with from day to day.

Q Yes. In other words, is it fair to put it this way, that what you are really saying today is that in your opinion this project can be financed but you are not saying and you can not say definitely it will be financed until these subsequent investigations are made by the large investors?

A I do not believe that anyone can say that any one of the projects before this Board can or, rather, will be financed some time in the future on any specific basis without change.

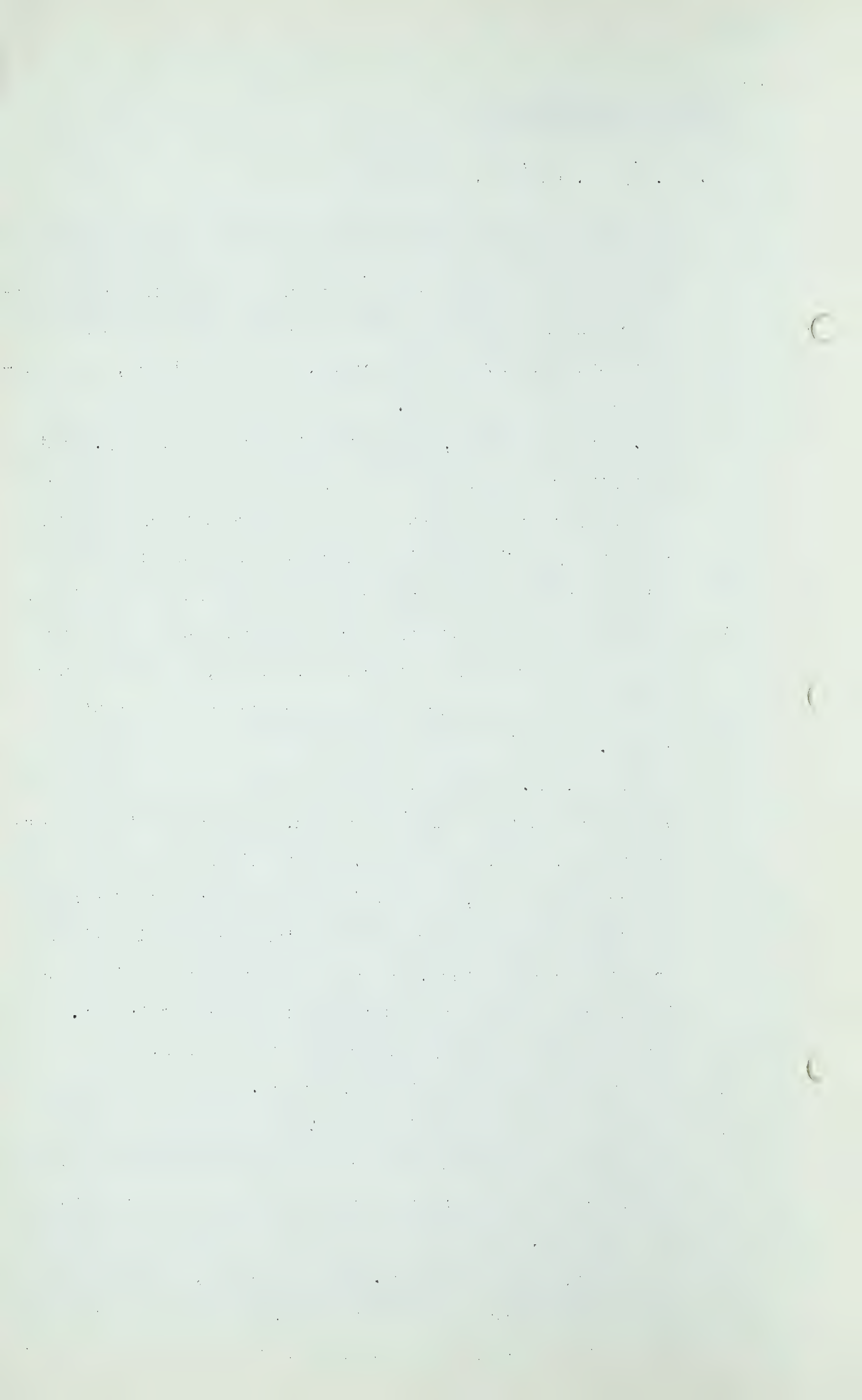
Q Well, now, Mr. Schoales, that brings me to the point on which I am particularly interested, and that is the gathering system. Now, I asked Mr. Dixon this morning and he referred me to you, whether it would make any difference to the financing of the transcontinental transmission line, if you might call it that, whether it has a transmission line in Alberta tied on the end of it or whether it hasn't. Is that going to make any difference in financing?

A It would make considerable difference.

Q Why would it make any difference?

A It might raise the over-all cost of gas because you have in effect a middleman in there between the producer and the pipeline.

Q All right, just stop there. Let us assume, seeing we can not get away from these assumptions, let us assume there is no difference in the gathering costs or of the costs of



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gas at the Alberta provincial boundary to the exporter.  
Let us assume that there is no difference in cost, other  
things being equal, would there be any difficulty in  
financing without having this gathering system tied on  
this end of your line?

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A Well, there would be other difficulties, whether or not the line, the main transmission line could not be operated as efficiently and as as low a cost by having to deal with another party in between them and the producer. It is generally desired by the institutional investors to know that the pipe line they are financing is directly attached to a supply, rather than coming through a third party.

Q Yes?

A I believe that on an over-all basis, with the Grid system included with the main pipe line, you can finance it on a better basis than you could if you were just financing part of it and you were financing the independent grid system such as you talk about in particular.

Q Well, do not worry about financing the independent grid system. I am asking you about financing the transmission line, your main export line.

A Well, I would be interested in financing the independent grid system because that would have a bearing on the cost of gas to the pipe line.

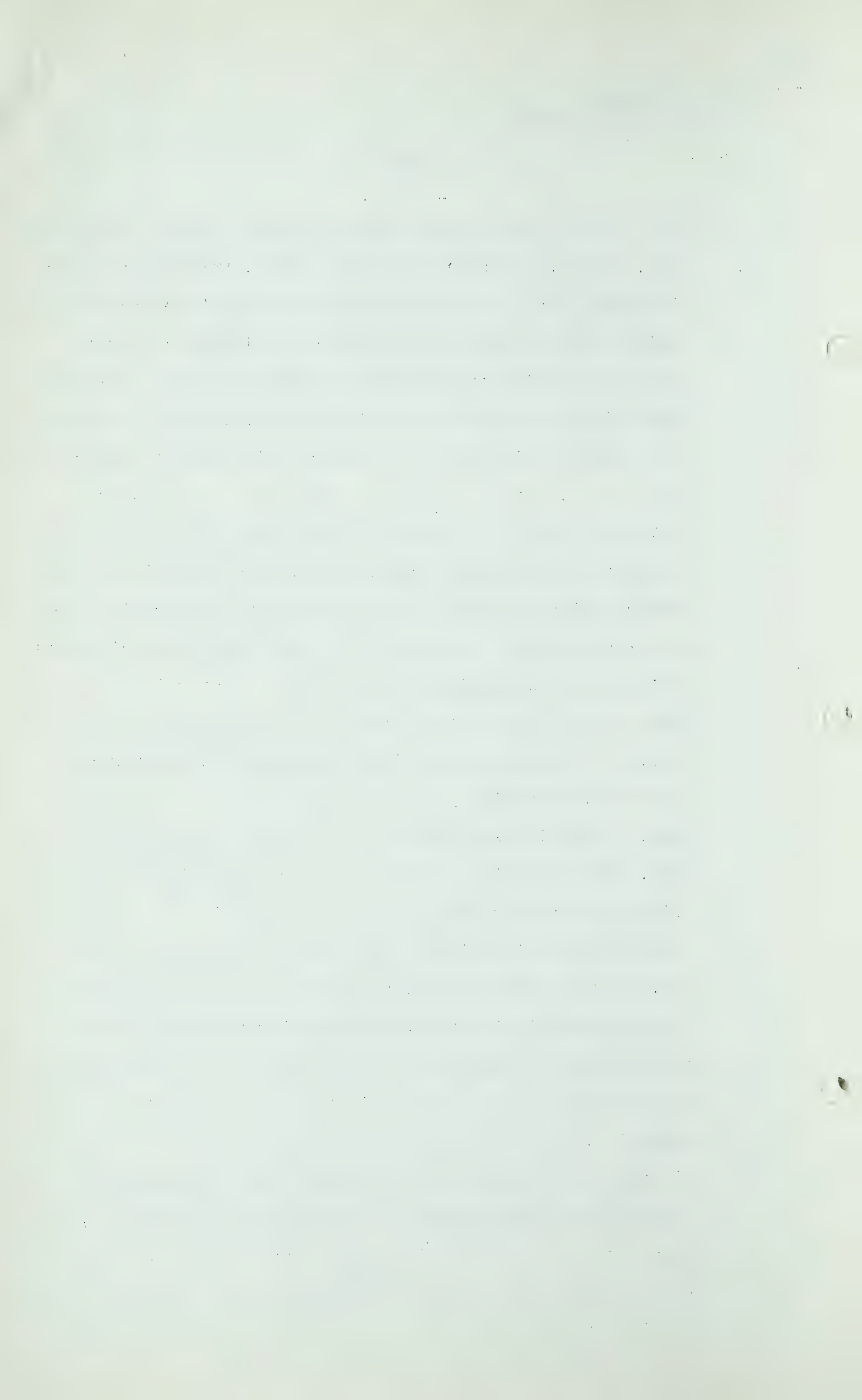
Q Yes, it would. But what I am trying to find out is why there is any difficulty about financing the transmission line because it has not the gathering system tied to it. You tell me you think there might be increased costs of operation?

A Right.

Q I asked you to assume that the costs would be the same, although you think that is of importance, do you?

A Yes.

Q And is not the real reason probably the one that you



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touched on, I think, in the second part of your answer, that you have a larger layout, you want more security behind the sales of your bonds, is that what you are getting at?

A If you are only financing a portion you would reduce the amount of bonds that you would be using proportionately, that you would be issuing, I mean, proportionately. This is a 75% bond issue.

Q That is right?

A And 25% equity.

Q And Northwest would have less bonds to place?

A That is true.

Q And, of course, you would have less bonds to place, is that right?

A That is true. And they would probably have to be sold at a higher price - at a lower price, I mean.

Q Are there any other reasons you think that it is desirable or advisable to have the gathering system attached?

A I think that Mr. Dixon might well say, as I have heard him say in the past, this is not my statement, "There would be operational problems."

Q As to that, I suppose you do not know?

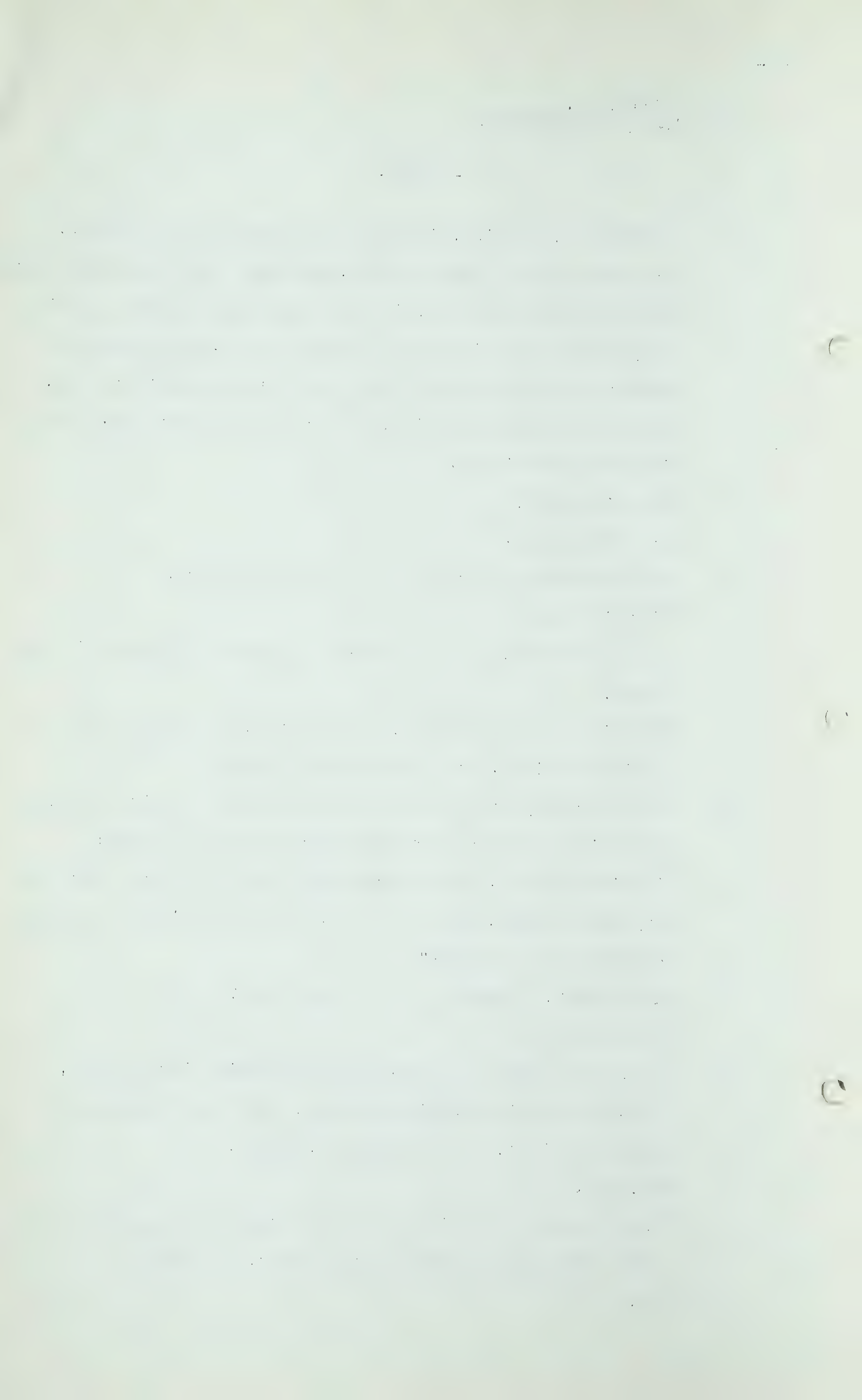
A I do not know.

Q Now, it is true, is it not, that distributing systems, natural gas distributing systems, have been financed on many occasions? Distributing systems?

A Oh, yes.

Q They are not tied directly to the source of supply, in the sense of being attached to the field, are they?

A No.





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Q Does that create any problem in financing them?

A A distributing system, generally, is not considered as good a financial risk as a pipe line.

Q But the main thing . . .

A And I have noticed that you would have to pay higher rates.

Q But the main thing is whether it is attached to a reliable source of supply, whether it be, well, another pipe line, or whatever it might be, isn't that right?

A And the more reliable the source the better, and if you are right to the producer, I would say you have the most reliable source of supply.

Q I see. Now, Mr. Schoales, would you go on with me in enlarging on the statement you made a few minutes ago that diversification of supply is a big help in security of supply, and, therefore, in financing?

A Yes.

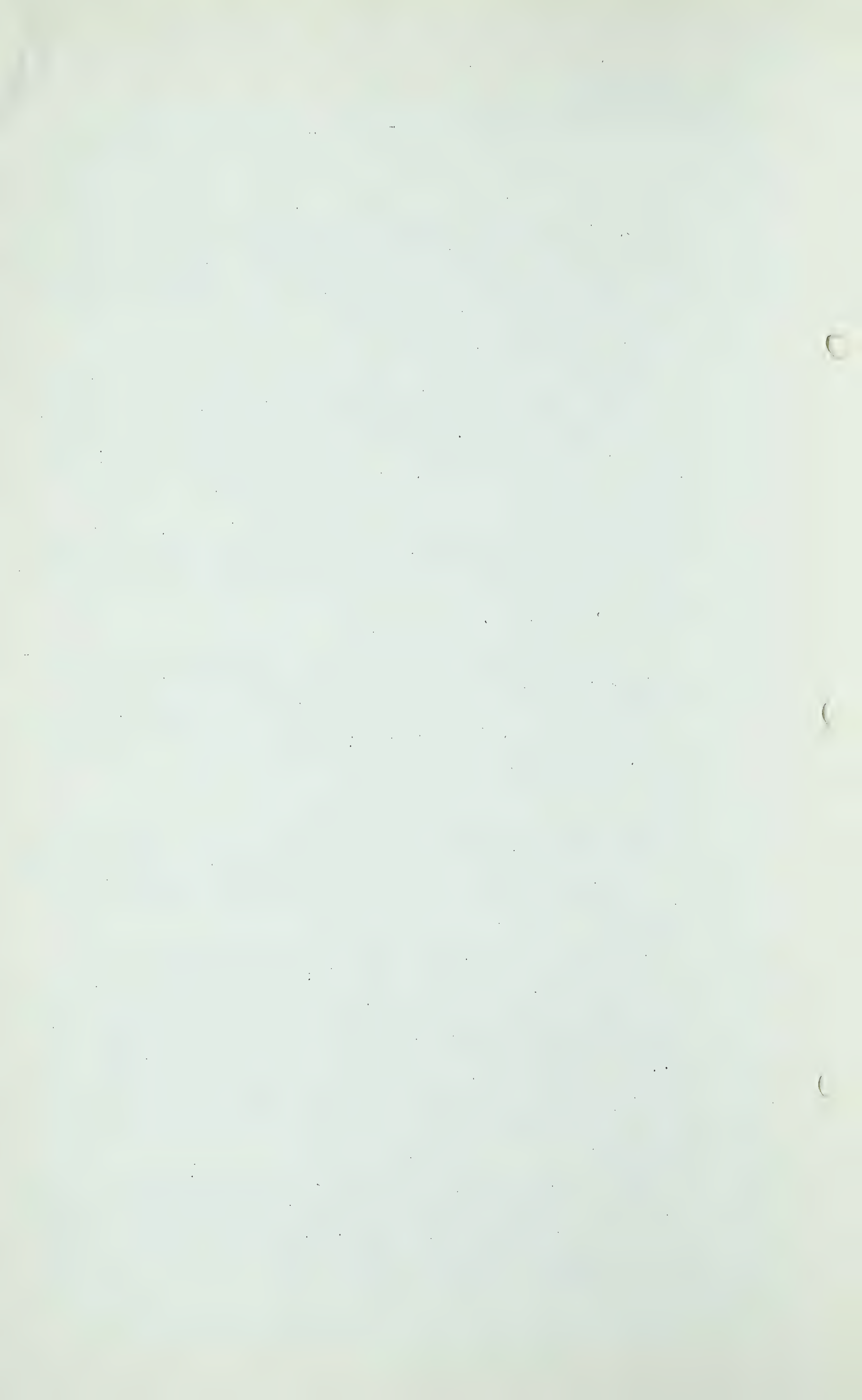
Q And that diversification of supply, as well as being beneficial to an exporter, would also be beneficial to consumers in Alberta?

A It depended if the system went near consumers in Alberta.

Q But, what I am getting at is this: Having a diversification of supply behind an export line is a good thing, and isn't it also a good thing behind local Alberta pipe lines?

A Yes, I think they have it. They are in a very fortunate position.

Q Therefore, any scheme which could be worked out of pooling supplies and providing for diversification of supply would help everybody concerned, wouldn't it?



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A Not necessarily.

Q No?

A Not necessarily.

Q Why not?

A It depends on whether the - on the basis on which it is done. As a matter of fact, I would venture to say that if you built up a complete monopoly that you would have more problems than you would if you didn't.

Q Is that the whole answer there?

A Yes.

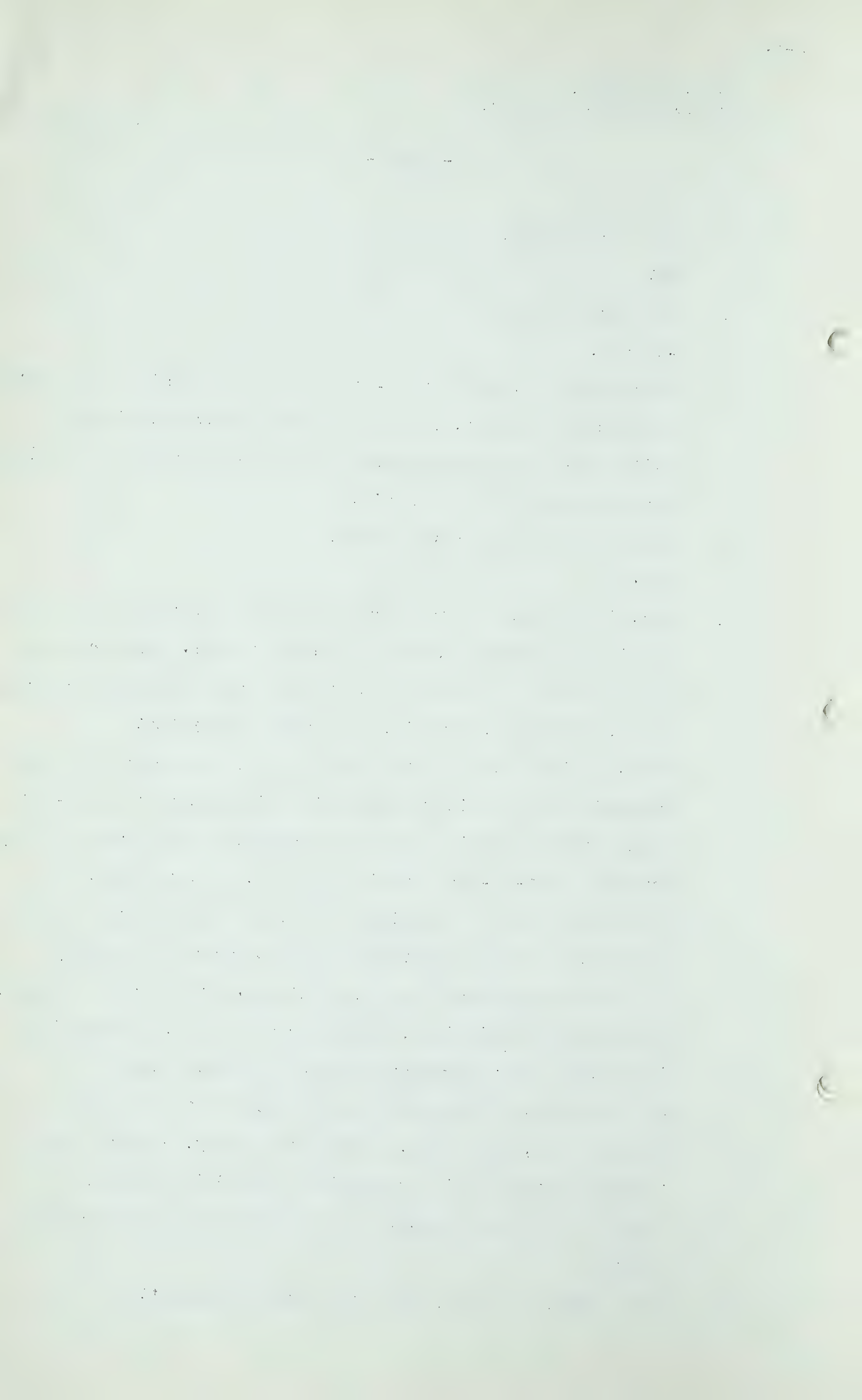
Q Now, in the case of the three companies now before the Board, one is the Alberta Natural Gas Grid, and Mr. Dixon referred to a question I put to him as to how that particular company will be financed, that is, the gathering system?

A Well, I might say that the whole group, the group of three companies are not in general being financed as an over-all, on an over-all basis. It would probably be the cheapest way from the cost-of-money basis to do it, and, as such, the money that would be required to build a natural gas company system and the grid system would be advanced in exactly the same proportions as it was raised by the senior company, without any commissions, banking commissions, or anything in between, on a straight dollar-for-dollar basis.

Q Do I understand from that that Northwest Natural would create bonds, sell them, realize the money, and then make a money advance to its subsidiary, the Grid Company?

A Actually the Grid Company is a subsidiary of the Northwest Natural.

Q Well, then, the money will come from Northwest?



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A Yes.

Q To the Canadian company?

A Yes.

Q And to the Alberta Grid?

A Yes.

Q There will be a bond issue of Alberta Grid?

A There would be a bond issue of the Grid in a proportion of 75% of its property, which would be the basis of issuing that exact amount of bonds, in that exact dollar amount, by the Northwest Natural Gas Company.

Q I take it from that that whatever the bonds issued by Alberta Grid, that they would be held by the parent Canadian company, and its bonds in turn by the Northwest Natural Gas Company, is that the way that it would work out?

A No. As I pointed out before, you do not have to go through three steps or two steps.

Q All right.

A It is just one step.

Q Putting it another way, there would be no bonds of the Grid Company held by the public?

A That is true.

Q It would be all held by the parent company?

A That is right.

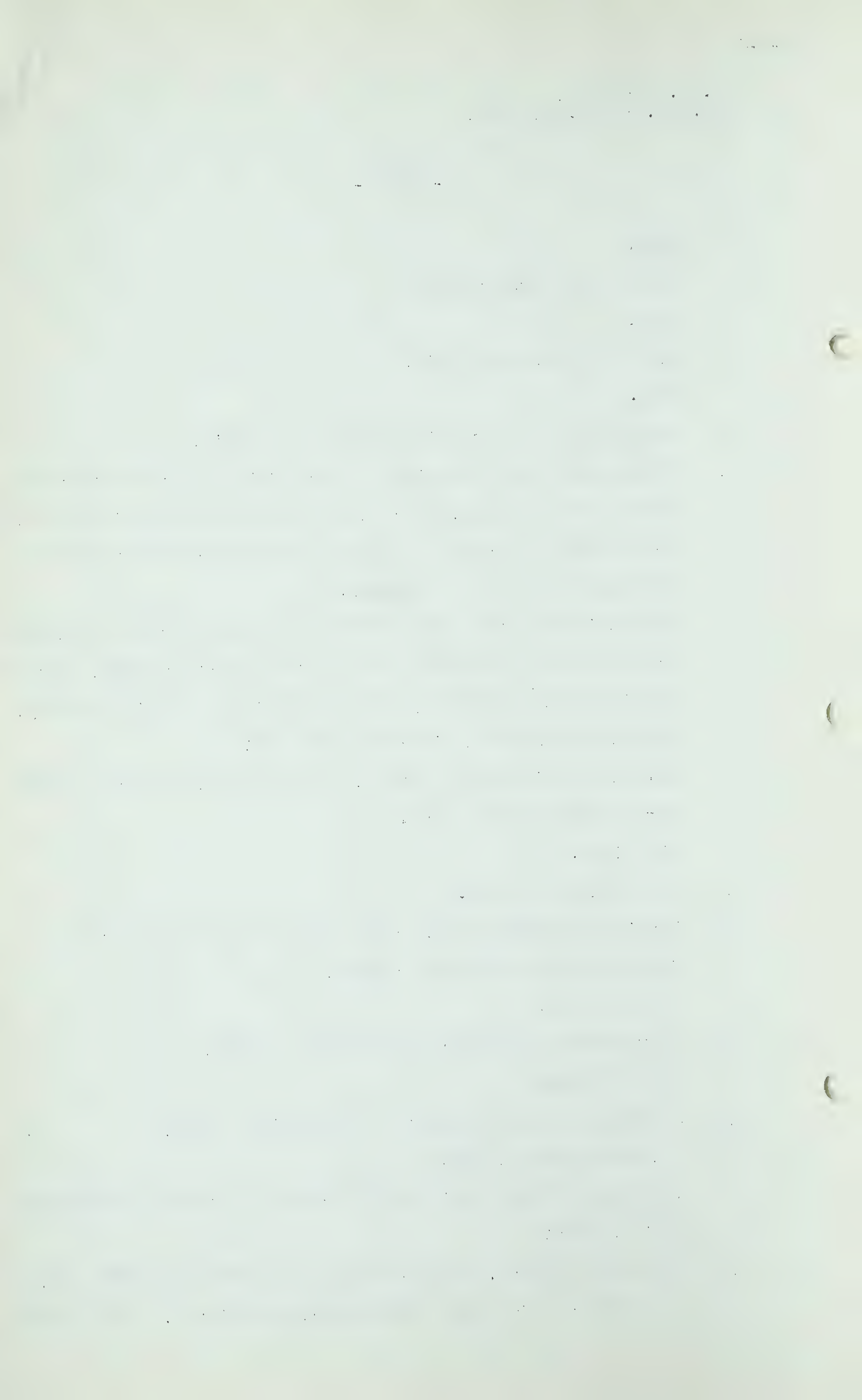
Q And does the same apply to the Canadian company?

A I would think so, yes.

Q Will any of the bond issue by Northwest Natural be disposed of in Canada?

A Yes, they will be, depending upon the market at that time, and there are Canadian underwriters associated, and I would





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believe that a substantial proportion of the bonds, and before you ask me the question on the equity, a substantial proportion of the equity would be disposed of in Canada.

Q Would you care to say what proportion that might be?

A I cannot tell at the present time.

Q Now, Mr. Schoales, you heard my questions to Mr. Dixon this morning about any possible interest of Canadian Gulf or its affiliates in this Northwest company?

A Yes.

Q Have you any knowledge about that beyond what he told me, or do you have any knowledge?

A What he said is my understanding also.

Q I see.

A That there is no interest of Canadian Gulf, or of Portland, or of Seattle, or of British Columbia Electric, in Northwest Natural, or any of their subsidiaries.

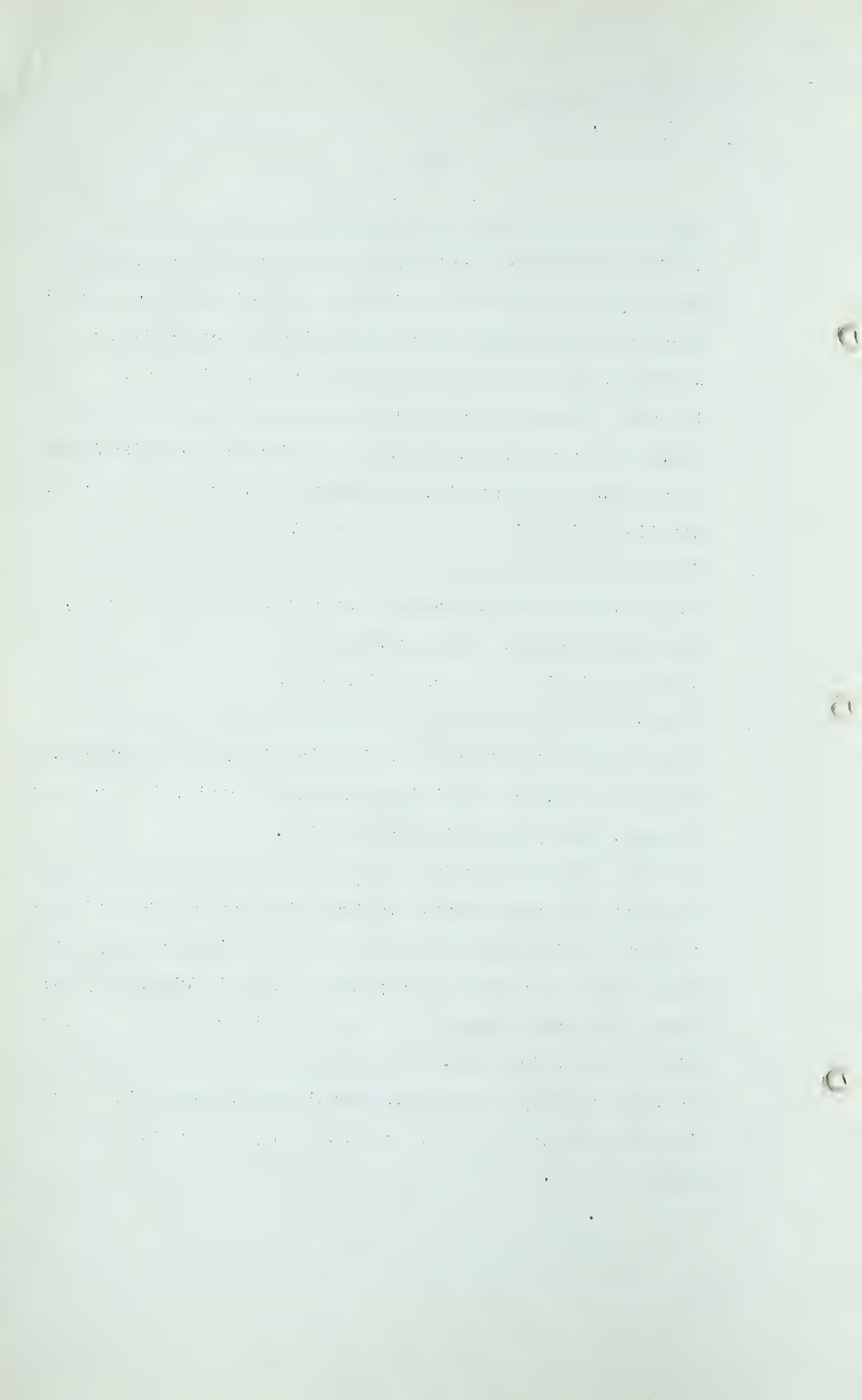
Q And will there be any interest?

A I cannot tell about that. Various distributors from time to time have said that when the public offer is made they would like to consider whether they would, and likewise, many other people have approached us and asked to be considered at the time of a public issue.

Q But, as far as you know now, Canadian Gulf has no interest in these companies or any promise of any interest?

A They have not.

Q Thank you.



D. N. Schoales,  
Cr. Ex. by Mr. S. B. Smith,  
Exam. by Mr. C. E. Smith.

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CROSS-EXAMINATION BY MR. S. B. SMITH:

- Q Mr. Schoales, evidence of the financibility, as you call it, of undertakings of this sort has come before the Federal Power Commission?
- A It will be necessary.
- Q I am not talking about this company, but that is the practice, Mr. Schoales?
- A That is the practice.
- Q Yes. Have you often given evidence before the Federal Power Commission?
- A No. I personally have not, no.
- Q Did you participate in the underwriting of the securities of Trans-Continental Gas Pipe Line Corporation, your firm?
- A I do not think we did.
- Q All right, thank you.

EXAMINATION BY MR. C. E. SMITH:

- Q There is just one question I have, sir. I had more, but I will resolve them all into one. You told us, Mr. Schoales, that you have evaluated all the evidence before this Board, or a large portion of it, and probably the Board's interim report?
- A Yes.
- Q When you evaluated the Preservation Act, particularly sections 9 and 11, and our Conservation Act, particularly sections 45 and 47, have you done that? When I said "evaluated them", I mean have you given them thorough consideration, what they may mean in the future?
- A I have given them consideration. As a matter of fact I gave





D. N. Schoales,  
Exam. by Mr. C. E. Smith.  
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them consideration at the time they were being passed.

Q Yes?

A And it is in the light of the provisions contained therein that I make my statement that we are prepared to undertake the financing.

Q That is exactly what I wanted as a matter of record, just for fear that with respect to this company, or somebody else, the Board might have to act under one of these sections in the future.

A Well, I would expect that they might act.

Q Oh, you go even further than I do. I just want to make sure that nobody will kick if the Board does.

A Well, it is a thing for consideration. I consider that when this matter goes to the Federal Power Commission that it will go with all the restrictions that have been put on it by law and by regulation, or by ruling here in Alberta, or in Canada.

Q Thank you, Mr. Schoales.

MR. BREDIN: I wonder if I might ask one question, sir.

THE CHAIRMAN: Yes.

CROSS-EXAMINATION BY MR. BREDIN:

Q In answering Mr. Martland you stated that the average bond interest would be 3-5/8%?

A No, I did not, sir.

Q I am sorry.

A My statement was that there has been some recently as low as 3-5/8ths.

Q What would you say the increase in interest rates has been



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Cr. Ex. by Mr. Bredin.  
Exam. by Dr. Govier.

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over the last two years, let us say, in financing ventures of this nature, an average increase?

A Well, I know of one venture that was, they attempted to finance, and during the six months period in which negotiations were on with the insurance companies the rate moved up 5/8ths of a point in a six-month period. Institutions ordinarily buy large blocks of securities, and one necessarily has to go to the large institutions when you are considering a \$100,000,000.00 bond issue, or \$100,000,000.00 financing at the present time, and they are rather reluctant to loan money at easy rates. It is becoming more and more difficult.

Q You wouldn't say that  $4\frac{1}{4}\%$  was a low rate of interest at the present time?

A I think it is a fair rate now. I cannot tell what it will be six months from now.

Q You think it is a fair rate at the present time?

A Yes.

Q That is all I have, sir.

EXAMINATION BY DR. GOVIER:

Q Mr. Schoales, did you say that you were a graduate in Mechanical Engineering?

A Yes, sir. I have never practiced it.

Q I am not surprised. I believe you also said, though, that you felt that you perhaps were in an enviable position to consider and evaluate projects of this sort where economics played such an important role, is that right?

A Yes.

Q And I imagine that you recall some of your engineering training when you are considering those?



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Exam. by Dr. Govier.

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A Well, some of the words that are used, yes.

Q Mr. Schoales, what I wanted to ask you was this: You heard discussions yesterday and this morning respecting the amount of stand-by equipment that seemed desirable in a transmission line, and I believe it was mentioned by Mr. McDonald, that there was a considerable variation of stand-by equipment in various projects being considered. Could you help the Board at all in that? Could you tell us, if you were considering and evaluating a project of this sort, what would you consider to be a reasonable amount of stand-by equipment?

A Well, I would not want to say, with my meagre engineering background, what percentage there is, but considering it in the early years when your load is building up you certainly have an excess of capacity that is being put in to take care of design peaks.

Q Let us talk about the actual stand-by capacity for the maintained load, the load of the fifth year, say, or perhaps I could put it this way, Mr. Schoales: Would you think that there should be any stand-by equipment, I mean to say, do you think that there should be no stand-by equipment, or 5% stand-by equipment, or 50% stand-by capacity? What is being done in other lines, do you know?

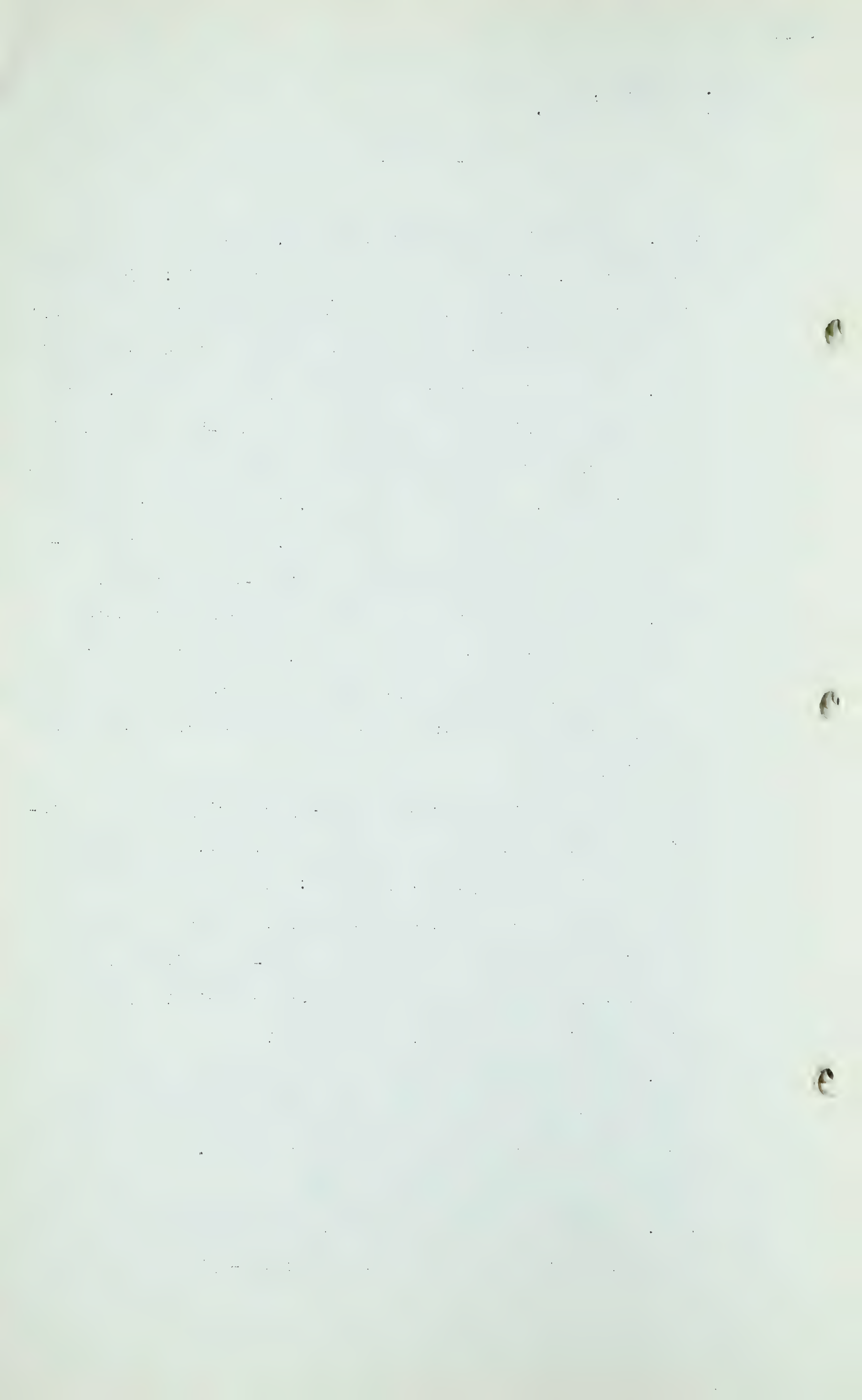
A Well, I do not fully know what is being done in other lines. I do know that other lines which have had no more excess capacity than this have been financed.

Q Could you tell me the names of them?

A Well, I think in the El Paso case, for instance . . .

Q It had about the same percentage of stand-by?





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A As I understand from Mr. Dixon, they were of this nature.

Q Is that a matter that you would take into account in considering the financibility of a project, the amount of stand-by equipment?

A Not in a major way, no, owing to the degree that I may in going through the figures feel that maybe it was a little low, and that in another place it might be a little high, and evaluate what the fairness was of the over-all estimate.

Q Well, do you have any standard of fairness that could be expressed in terms of percentage or horsepower?

A No, I haven't.

Q Or anything of that kind?

A No, I haven't, Dr. Govier.

Q Thanks, Mr. Schoales.

THE CHAIRMAN: Thanks, Mr. Schoales.

MR. NOLAN: Mr. Chairman, the Northwest Company has been asked to provide additional information to the Board. That information we will prepare and place before the Board. Apart from that, this is all the evidence we have to offer at this time.

THE CHAIRMAN: Thanks, Mr. Nolan. Will that other evidence be ready on Monday, or would you rather wait until later?

MR. NOLAN: We are not sitting on Monday.

THE CHAIRMAN: I am sorry, a week from Monday, on the 3rd.

MR. NOLAN: Well, it is expected that it will be ready a week from Monday, which is the 3rd of December.

THE CHAIRMAN: Thanks, Mr. Nolan, we will adjourn then, until Monday December 3rd.

(Hearing adjourned until 9.30 a. m. Monday, December 3rd, 1951.)







# The Province of Alberta

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## PETROLEUM AND NATURAL GAS CONSERVATION BOARD

IN THE MATTER OF THE GAS RESOURCES PRESERVATION ACT

AND IN THE MATTER OF the application of Westcoast Transmission Company Limited and Westcoast Transmission Company Ltd. (Alberta Incorporation) for a permit authorizing the purchase and sale of Natural Gas in the Province of Alberta for transmission to points in the Province of British Columbia and the States of Washington and Oregon in the United States of America.

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I. N. McKinnon Esq., Chairman

D. P. Goodall Esq.

Dr. G. W. Govier

***Session:***

**Volume**\_\_\_\_\_



